

PEOPLES FINANCIAL SERVICES CORP.

Form 424B3

October 10, 2013

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-190587

**Joint Proxy Statement/Prospectus For 4,466,086 Shares of
Peoples Financial Services Corp. Common Stock
Merger Proposal Your Vote Is Very Important**

To: The shareholders of Peoples Financial Services Corp. and Penseco Financial Services Corporation

The boards of directors of Peoples Financial Services Corp. and Penseco Financial Services Corporation have each unanimously approved a transaction in which Penseco will merge with and into Peoples. Pursuant to the terms of the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, Penseco will merge with and into Peoples, and Penn Security Bank and Trust Company, the wholly-owned subsidiary of Penseco will merge with and into Peoples Neighborhood Bank, the wholly-owned subsidiary of Peoples. The resulting bank will be named Peoples Security Bank and Trust Company.

In the merger, Penseco shareholders will receive 1.3636 shares of Peoples common stock for each share of Penseco common stock they own at the effective time of the merger, subject to adjustment in accordance with the merger agreement, and discussed in greater detail under Proposal: The Merger Terms of the Merger beginning on page 40. Penseco shareholders also will receive cash instead of any fractional shares they would have otherwise received in the merger. Peoples estimates that it will issue approximately 4,466,086 shares of Peoples common stock, \$2.00 par value per share, in the merger. Immediately following the merger, former Peoples shareholders are expected to own approximately 40.8% of Peoples common stock, and former Penseco shareholders are expected to own approximately 59.2% of Peoples common stock.

Peoples common stock is quoted on the OTCQB market place maintained by OTC Market Groups, Inc. under the symbol PFIS. On October 4, 2013, the closing price of Peoples common stock was \$35.00. The price of Peoples common stock will fluctuate between now and the closing of the merger. Penseco is quoted on the OTCQB market place maintained by OTC Market Groups, Inc. under the symbol PFNS. On October 4, 2013, the closing price of Penseco common stock was \$44.00. The price of Penseco common stock will fluctuate between now and the closing of the merger. We urge you to obtain current market quotations for both Peoples and Penseco common stock.

Peoples will hold a special meeting of its shareholders to vote on the approval and adoption of the merger agreement on November 15, 2013, 2013, at 10:00 a.m. at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822. Penseco will hold a special meeting of its shareholders to vote on the approval and adoption of the merger agreement on November 21, 2013, at 2:00 p.m. at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503. We cannot complete the merger unless the holders of at least a majority of the outstanding shares of Peoples common stock entitled to vote at the special meeting of shareholders approve and adopt the merger agreement and the merger agreement is approved and adopted by the affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock.

As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive cash payment of a statutorily determined fair value of your common stock in the event that the merger is consummated. The statutorily determined fair value could be more or less than the value of the merger consideration. For more information regarding dissenters rights, refer to Q-14: Do I have the right to dissent from the merger? on page 5 and Proposal: The Merger Rights of Dissenting Shareholders beginning on page 92.

Each of the Peoples and Penseco board of directors unanimously recommends that you vote FOR the approval and adoption of the merger agreement. All shareholders of Peoples and Penseco are invited to attend their respective special meeting in person. However, whether or not you plan to attend the special meeting, please take the time to ensure your shares are voted by submitting a proxy, either by mailing the enclosed proxy card or by following the instructions for internet or telephone submission.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the common stock of Peoples to be issued in this merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The shares of Peoples common stock offered are not savings or deposit accounts or other obligations of either party or any of their banking or other subsidiaries, and they are not insured by any federal or state governmental agency.

Investing in Peoples common stock involves risks that are described in Risk Factors beginning on page 25.

This joint proxy statement/prospectus is dated October 10, 2013 and is first being mailed to shareholders of Peoples and Pensco on or about October 11, 2013.

Table of Contents

Peoples Financial Services Corp.

82 Franklin Avenue

Hallstead, PA 18822

Notice of Special Meeting of Shareholders

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Peoples Financial Services Corp. will be held at 10:00 a.m., local time, on November 15, 2013 at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822, for the following purposes:

1. To approve and adopt the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, by and between Peoples Financial Services Corp. and Pensco Financial Services Corporation, which provides, among other things, for the merger of Pensco with and into Peoples, and the conversion of each share of Pensco common stock immediately outstanding prior to the merger into 1.3636 shares of Peoples common stock, all as described in the accompanying documents, and transactions in connection therewith;
2. To amend Article 4 of Peoples Articles of Incorporation to increase the number of authorized shares of Peoples common stock, \$2.00 par value per share, from 12,500,000 shares to 25,000,000 shares;
3. To approve on an advisory (non-binding) basis the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger;
4. To consider and vote upon a proposal to adjourn or postpone the special meeting of shareholders, if more time is needed, to allow Peoples time to solicit additional votes in favor of the merger agreement and the amendment to the articles of incorporation; and

5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof. The Peoples board of directors unanimously recommends that you vote FOR the approval and adoption of the Agreement and Plan of Merger, FOR the approval and adoption of the amendment to the articles of incorporation, FOR the approval of the advisory (non-binding) resolution approving the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger, and FOR the approval of the proposal granting the Peoples board of directors discretionary authority to adjourn or postpone the special meeting, if necessary, as described in detail in the accompanying joint proxy statement/prospectus.

The Peoples board of directors has fixed the close of business on September 27, 2013, as the record date for determining shareholders entitled to notice of, and to vote at, the special meeting of shareholders.

Your vote is important regardless of the number of shares you own. Peoples cannot complete the merger unless the merger agreement is approved and adopted by the affirmative vote of the holders of at least a majority of the outstanding shares of Peoples common stock entitled to vote on the merger agreement. If a Peoples shareholder does not vote by proxy or by attending the Peoples special meeting of shareholders and voting in person, it will have the same effect as voting against the merger.

Whether or not you plan to attend the special meeting, the Peoples board of directors urges you to complete, sign, date, and return the enclosed proxy card as soon as possible in the enclosed postage-paid envelope. This will not prevent you from voting in person at the special meeting but will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are registered in street name, you will need additional documentation from your broker in order to vote personally at the special meeting.

By Order of the Board of Directors,

Alan W. Dakey
President and Chief Executive Officer

Hallstead, Pennsylvania

October 10, 2013

Table of Contents

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

Notice of Special Meeting of Shareholders

NOTICE IS HEREBY GIVEN that a special meeting of shareholders of Penseco Financial Services Corporation will be held at 2:00 p.m., local time, on November 21, 2013 at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503, for the following purposes:

1. a proposal to approve and adopt the Agreement and Plan of Merger, dated as of June 28, 2013, as amended, by and between Peoples Financial Services Corp. and Penseco Financial Services Corporation, which provides, among other things, for the merger of Penseco with and into Peoples, and the conversion of each share of Penseco common stock immediately outstanding prior to the merger into 1.3636 shares of Peoples common stock, all as described in the accompanying documents;
2. a proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger; and
3. a proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

In accordance with the Penseco's bylaws, only the business conducted at the special meeting will be the business brought before the special meeting pursuant to this notice.

The Penseco board of directors unanimously recommends that you vote **FOR** the proposal to approve and adopt the Agreement and Plan of Merger, **FOR** the proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger, and **FOR** the approval the proposal to adjourn the special meeting, if necessary.

Shareholders of record of the Penseco common stock of at the close of business on September 27, 2013 are entitled to vote at the Penseco special meeting and any adjournment or postponement of the special meeting.

Your vote is important regardless of the number of shares you own. Penseco cannot complete the merger unless the merger agreement is approved and adopted by the affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock. If a Penseco shareholder does not vote by proxy or by attending the Penseco special meeting of shareholders and voting in person, it will have the same effect as voting against the merger.

Whether or not you plan to attend the special meeting, the Penseco board of directors urges you to submit your proxy as soon as possible, either by completing, signing, dating, and returning the enclosed proxy in the enclosed postage-paid envelope or by following the internet and telephone instructions included in the attached materials. Submitting your proxy will not prevent you from voting in person at the special meeting, but it will assure that your vote is counted if you are unable to attend. If you are a shareholder whose shares are registered in street name, you will need to follow the instructions provided by your broker, and you will need additional documentation from your broker in order to vote in person at the special meeting.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

By Order of the Board of Directors,

Craig W. Best
President and Chief Executive Officer

Scranton, Pennsylvania

October 10, 2013

Table of Contents

HOW TO OBTAIN MORE INFORMATION

This document incorporates by reference important business and financial information about Penseco that is not included in or delivered with this document. You can obtain free copies of this information through the SEC website at <http://www.sec.gov> or by writing or calling:

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

Telephone number 570-346-7741

Attention: Marie L. Luciani, Investor Relations Officer, or Joan Rotondaro

In order to obtain timely delivery of the documents, you must request the information no later than five business days before the date of Penseco's special meeting. This means that Penseco shareholders requesting documents must do so by November 14, 2013 in order to receive them before the Penseco special meeting.

See "Where You Can Find More Information" on page 181 and "Incorporation of Certain Information by Reference" on page 181.

All information concerning Peoples and its subsidiaries has been furnished by Peoples and all information concerning Penseco and its subsidiaries has been furnished by Penseco.

You should rely only on the information contained or incorporated by reference in this proxy statement/prospectus when evaluating the merger agreement and the proposed merger. We have not authorized anyone to provide you with information that is different from what is contained in this joint proxy statement/prospectus. This proxy statement/prospectus is dated October 10, 2013. You should not assume that the information contained in this proxy statement/prospectus is accurate as of any date other than such date, and neither the mailing of this joint proxy statement/prospectus to shareholders of Peoples and Penseco nor the issuance of shares of Peoples common stock as contemplated by the merger agreement shall create any implication to the contrary.

Table of Contents**Table of Contents**

<u>Questions and Answers about the Merger</u>	3
<u>Summary</u>	8
<u>Selected Historical Consolidated Financial Data of Peoples</u>	17
<u>Selected Historical Consolidated Financial Data of Penseco</u>	19
<u>Selected Unaudited Pro Forma Combined Financial Data</u>	21
<u>Comparative Pro Forma Per Share Data</u>	23
<u>Risk Factors</u>	25
<u>A Warning About Forward-Looking Information</u>	34
<u>The Peoples Special Meeting of Shareholders</u>	34
<u>The Penseco Special Meeting of Shareholders</u>	37
<u>Proposal: The Merger</u>	40
<u>General</u>	40
<u>Background of the Merger</u>	41
<u>Certain Non-Public, Forward-Looking Information Exchanged by Peoples and Penseco</u>	47
<u>Peoples' Reasons for the Merger</u>	48
<u>Recommendation of the Peoples Board of Directors</u>	51
<u>Opinion of Peoples' Financial Advisor</u>	51
<u>Penseco's Reasons for the Merger</u>	59
<u>Recommendation of the Penseco Board of Directors</u>	62
<u>Opinion of Penseco's Financial Advisor</u>	62
<u>Terms of the Merger</u>	70
<u>Interests of Directors, Officers, and Others in the Merger</u>	83
<u>Accounting Treatment</u>	89
<u>Material U.S. Federal Income Tax Consequences</u>	89
<u>Resales of Peoples Common Stock</u>	91
<u>Application to be Listed on The Nasdaq Stock Market, Inc. or New York Stock Exchange</u>	91
<u>Rights of Dissenting Shareholders</u>	92
<u>Description of Peoples</u>	94
<u>General</u>	94
<u>Property</u>	106
<u>Legal Proceedings</u>	106
<u>Information about Peoples' Directors</u>	106
<u>Beneficial Ownership</u>	121
<u>Related Party Transactions</u>	122
<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	122
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. Six Months Ended June 30, 2013 and 2012</u>	124
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. Years Ended December 31, 2012 and 2011</u>	133
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. Years Ended December 31, 2011 and 2010</u>	159
<u>Qualitative and Quantitative Disclosures about Market Risk</u>	168
<u>Description of Peoples Capital Securities</u>	169
<u>Description of Peoples' Common Stock</u>	169
<u>Comparison of Shareholders' Rights</u>	171
<u>Number of Authorized Shares of Capital Stock</u>	172
<u>Share Certificates</u>	172
<u>Annual Shareholder Meeting</u>	172
<u>Special Meetings of Shareholders</u>	172
<u>Notice of Shareholder Meetings</u>	172

Table of Contents

<u>Fixing the Record Date</u>	172
<u>Composition of the Board of Directors</u>	173
<u>Composition of Board of Director Committees</u>	173
<u>Advance Notice Requirement for Nomination of Candidates for Director</u>	174
<u>Advance Notice Requirement for Business to be Conducted at Annual Meeting</u>	174
<u>Amendment of Articles of Incorporation</u>	175
<u>Amendment of Bylaws</u>	176
<u>Fundamental Changes</u>	176
<u>Anti-Takeover Provisions Applicable to Registered Corporations</u>	176
<u>Directors Duty to Consider a Merger or Combination with Another Corporation</u>	177
<u>Peoples Proposal No. 2: Amendment to Peoples Articles of Incorporation to Increase Authorized Number of Shares</u>	178
<u>Peoples Proposal 3: Advisory (Non-Binding) Vote on Golden Parachute Compensation</u>	179
<u>Penseco Proposal 2: Advisory (Non-Binding) Vote on Golden Parachute Compensation</u>	180
<u>Proposal: Adjournment or Postponement of Special Meeting</u>	180
<u>Experts</u>	181
<u>Legal Matters</u>	181
<u>Where You Can Find More Information</u>	181
<u>Incorporation of Certain Information by Reference</u>	181
<u>Other Business</u>	182
<u>Shareholder Proposals</u>	182
<u>Consolidated Financial Statements of Peoples Financial Services Corp.</u>	F-1
<u>Unaudited Pro Forma Combined Financial Information</u>	F-66
<u>Agreement and Plan of Merger, as amended</u>	Annex A
<u>Opinion of Boenning & Scattergood, Inc.</u>	Annex B
<u>Opinion of Griffin Financial Group, Inc.</u>	Annex C
<u>Dissenters Rights Provisions</u>	Annex D

Table of Contents

Questions and Answers about the Merger

Q-1: Why am I receiving this document?

A: You are receiving this document because Peoples and Penseco signed an Agreement and Plan of Merger, dated as of June 28, 2013, as amended, which provides, among other things, for the merger of Penseco with and into Peoples, and the conversion of each share of Penseco common stock outstanding immediately prior to the consummation of the merger into 1.3636 shares of Peoples common stock.

Q-2: What is the purpose of this document?

A: This document serves as both a proxy statement of Peoples and Penseco and a prospectus of Peoples. This document serves as a proxy statement because the Peoples and Penseco boards of directors are soliciting your proxy for use at the Peoples and Penseco special meetings of shareholders called to consider and vote on the merger agreement. This document serves as a prospectus because Peoples is offering shareholders of Penseco to exchange their shares of Penseco common stock for shares of Peoples common stock in the merger.

Q-3: What items of business will Peoples and Penseco ask shareholders to consider at the special meetings?

A: At the Peoples special meeting, shareholders are asked to vote in favor of approval and adoption of the merger agreement with Penseco. In addition, shareholders will be asked to vote in favor of an amendment to the articles of incorporation, cast an advisory (non-binding) vote on the golden parachute compensation payable to the named executive officers of Peoples and Penseco in connection with the merger, and vote in favor of a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies if we have not received sufficient votes to adopt the merger agreement at the time of the special meeting.

At the Penseco special meeting, shareholders are asked to vote in favor of approval and adoption of the merger agreement with Peoples. In addition, shareholders will be asked to cast an advisory (non-binding) vote on the golden parachute compensation, that is compensation based on or related to the proposed merger, payable to the named executive officers of Penseco in connection with the merger, and vote in favor of a proposal to adjourn or postpone our special meeting, if necessary, to solicit additional proxies if we have not received sufficient votes to adopt the merger agreement at the time of our special meeting.

Q-4: Why are Peoples and Penseco proposing to merge?

A: The boards of directors of Peoples and Penseco believe that a merger of the two companies will create a stronger and more capable entity than either Peoples or Penseco is likely to be alone. Each board of directors believes the merger will provide an opportunity for each company to capitalize on its resources in the short-term and strengthen their prospects for the continued growth over the long-term. The merger also involves certain risks, which are described under Risk Factors beginning on page 25.

Q-5: Will Peoples Neighborhood Bank and Penn Security Bank and Trust Company change their names after the merger?

A: Yes. Following the effective time of the merger of Penseco with and into Peoples, Penn Security Bank and Trust Company will merge with and into Peoples Neighborhood Bank. The resulting bank will be named Peoples Security Bank and Trust Company.

Table of Contents

Q-6: What do the Peoples and Penseco boards of directors recommend?

A: The Peoples and Penseco boards of directors have approved the merger agreement and the merger, and each believes that the merger is in the best interests of Peoples and Penseco. Accordingly, the Peoples board of directors unanimously recommends that their shareholders vote FOR the approval and adoption of the merger agreement and the merger, FOR the approval and adoption of the amendment to the articles of incorporation, FOR the approval of the advisory (non-binding) resolution approving the golden parachute compensation payable to the named executive officers of Peoples and Penseco in connection with the merger, and FOR the approval of the proposal granting the Peoples board of directors discretionary authority to adjourn or postpone the special meeting, if necessary. The Penseco board of directors unanimously recommends that you vote FOR the proposal to approve and adopt the merger agreement, FOR the proposal to approve, on an advisory basis, the compensation of the named executive officers of Penseco that is based on or related to the proposed merger, and FOR the approval of the proposal to adjourn the special meeting, if necessary.

Q-7: When do Peoples and Penseco expect to complete the merger?

A: Peoples and Penseco expect to complete the merger shortly after all of the conditions to the merger are fulfilled, including obtaining the approval of Peoples shareholders, the approval of Penseco shareholders, and the approval of the applicable regulatory agencies. We anticipate this will occur in late 2013. Peoples and Penseco cannot assure you that they will obtain the necessary shareholder approvals and regulatory approvals or the other conditions precedent to the merger can or will be satisfied.

Q-8: What will Penseco shareholders receive in the merger?

A: Record holders of Penseco common stock will receive 1.3636 shares of Peoples common stock for every share of Penseco common stock they own on the effective time of the merger and will receive cash instead of any fractional share they would have otherwise received in the merger. The exchange ratio is subject to adjustment as discussed in greater detail under Proposal: The Merger Terms of the Merger, beginning on page 40.

Q-9: Why is Peoples proposing to amend its articles of incorporation?

A: Currently, Peoples articles of incorporation only permit the issuance of 12,500,000 shares of common stock. However, in order to effect the merger, Peoples will have to issue an additional 4,466,086 shares of common stock in addition to the current 3,087,206 shares of common stock outstanding and 5,800 shares of common stock reserved for issuance. While, Peoples will have enough common stock shares authorized to issue to effect the merger under the current articles of incorporation, in order to provide flexibility, the board of directors believes it is in the best interests of Peoples and its shareholders to have more shares authorized for any future financings, investment opportunities, acquisitions of other companies, declaration of stock dividends, stock splits or other distributions, or for other corporate purposes.

Q-10: Why am I being asked to cast an advisory (non-binding) vote to approve the golden parachute compensation payable to certain officers in connection with the merger?

A: The SEC, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, adopted rules that require the companies to seek an advisory (non-binding) vote with respect to certain payments that will or may be made to each company's named executive officers in connection with the merger.

Table of Contents

Q-11: What will happen if shareholders do not approve the golden parachute compensation at the special meetings?

A: Approval of the golden parachute compensation payable in connection with the merger is not a condition to completion of the merger. The votes with respect to the golden parachute compensation are advisory and will not be binding on either Peoples or Penseco (or the combined company that results from the merger) regardless of whether the merger agreement is approved and adopted. Accordingly, as the compensation to be paid to certain of the executives in connection with the merger is contractual, such compensation will or may be payable if the merger is completed regardless of the outcome of the advisory votes.

Q-12: Are there regulatory or other conditions to the merger occurring?

A: Yes. The merger must be approved by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. As of the date of this joint proxy statement/prospectus, appropriate applications have been filed with these regulatory authorities. On October 7, 2013, Peoples received approval from the Federal Reserve Bank of Philadelphia, acting on delegated authority of the Federal Reserve Board, of its application to merge with Penseco.

Furthermore, the merger will only be completed if neither Peoples nor Penseco is in material breach of any of its representations, warranties, or obligations under the merger agreement. The merger is also subject to the condition that Peoples and Penseco each receive an opinion from their respective counsel that the merger will be treated as a reorganization under Section 368(a) of the Internal Revenue Code of 1986. The merger is also subject to certain other specified conditions. See Proposal: The Merger Terms of the Merger Conditions to Merger, beginning at page 77.

Q-13: What vote is required to approve the merger?

A: Both Peoples shareholders and Penseco shareholders must adopt and approve the merger agreement in accordance with each of its articles of incorporation and bylaws. As the board of directors of Peoples has already approved the merger agreement by at least 66 2/3% of the board, the affirmative vote of the holders of at least a majority of the outstanding shares of Peoples common stock on the record date is necessary to approve and adopt the merger agreement. The affirmative vote of the holders of at least 75% of the outstanding shares of Penseco common stock on the record date is necessary to approve and adopt the merger agreement.

Q-14: Do I have the right to dissent from the merger?

A: Yes. As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive a cash payment of the statutorily determined fair value of your common stock in the event that the merger is consummated. The statutorily determined fair value could be more or less than the value of the merger consideration. In order to assert dissenters rights, shareholders must precisely follow the process described in Proposal: The Merger Rights of Dissenting Shareholders beginning on page 92 and in Annex D.

Generally, shareholders who wish to dissent must:

1. File with the corporation of which they are a shareholder a written notice of their intention to demand that they be paid the fair value for their shares of Peoples or Penseco common stock, as the case may be, rather than receive shares of Peoples common stock as described in the merger agreement prior to the respective vote of shareholders on the merger at the Peoples or Penseco special meeting called for such purpose.

2.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

The dissenting shareholders must effect no change in the beneficial ownership of their Peoples or Pensco common stock, as the case may be, from the date of the filing of the intention to demand payment through the effective time of the merger if the shareholders approve and adopt the merger and the merger agreement.

Table of Contents

3. Dissenting shareholders also must vote against the merger, abstain from voting for the merger or not vote their Peoples or Penseco common stock at the special meeting called for such purpose.

You also are encouraged to consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of these dissenters' rights and your ability to receive cash for the fair value of your common stock of either Peoples or Penseco.

Q-15: What do I need to do now?

A: After you have carefully read these materials, indicate on the enclosed proxy card how you want to vote your shares of either Peoples or Penseco. Then sign, date, and mail the proxy card in the enclosed postage-paid envelope as soon as possible so your shares will be represented and voted at either the Peoples or Penseco special meeting. Alternatively, you can submit your proxy by following the internet or telephone instructions included in the following materials and on your proxy card.

Q-16: Should Penseco shareholders send in their stock certificates now?

A: No. Penseco shareholders should not send in their stock certificates at this time. Penseco shareholders will receive instructions from the exchange agent at a later time. Peoples shareholders will not need to exchange their certificates. See Proposal The Merger Terms of the Merger Exchange Procedures on page 71.

Please do not send any stock certificates to Peoples, Penseco, or the exchange agent until you receive instructions.

Q-17: Can I change my vote after I have submitted my proxy?

A: Yes. There are three ways for you to revoke your proxy and change your vote:

1. You may submit a later-dated, proxy before Peoples' or Penseco's special meeting, as either relates to you.
2. You may revoke your proxy by written notice delivered at any time prior to the vote on the merger including delivery at the special meeting of shareholders. Peoples shareholders should deliver this notice to the Corporate Secretary, and Penseco shareholders should deliver this notice to the Secretary.
3. You may attend the Peoples or Penseco special meeting and vote in person. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q-18: What are the material U.S. federal income tax consequences of the merger to Penseco shareholders?

A: The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the holders of Penseco common stock generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Penseco common stock for shares of Peoples common stock in the merger, except with respect to any cash received in lieu of fractional shares. This tax treatment may not apply to all Penseco shareholders.

We urge you to consult your tax advisor for a full understanding of the tax consequences of the merger to you. Tax matters are very complicated and, in many cases, tax consequences of the

Table of Contents

merger will depend on your particular facts and circumstances. See **Proposal The Merger Material U.S. Federal Income Tax Consequences, beginning at page 89.**

Q-19: What happens if my stock certificates are held in street name by my broker, bank, or other nominee?

A: Your broker, bank, or other nominee will not vote your shares unless you provide instructions to your broker, bank, or other nominee on how to vote. You should fill out the voter instruction form sent to you by your broker, bank, or other nominee with this document.

Q-20: Whom should I call with questions or to obtain additional copies of this document?

A: If you have questions about your special meeting of shareholders or if you need additional copies of this document, you should contact:

For Peoples Shareholders:

Scott A. Seasock

Senior Vice President and Chief Financial Officer

Peoples Financial Services Corp.

82 Franklin Avenue

Hallstead, PA 18822

(570) 897-2175

For Penseco Shareholders:

Marie L. Luciani

Investor Relations Officer

or Joan Rotondaro

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

(570) 346-7741

In addition, you may also contact Regan & Associates, Inc., Peoples and Penseco's proxy solicitor at the following address and telephone number:

Regan & Associates, Inc.

505 Eighth Avenue, Suite 800, New York, New York 10018

(212) 587-3005

info@reganproxy.com

Table of Contents

Summary

This summary highlights selected information from this document. It does not contain all of the information that may be important to you. You should carefully read this entire document and the other documents referred to in this document before you decide how to vote. Together these documents will give you a more complete description of the proposed transaction. Page references are included in this summary to direct you to more thorough descriptions of the topics provided elsewhere in these materials.

The Special Meetings of Shareholders

Peoples special meeting of shareholders to be held November 15, 2013 (see page 34).

Peoples will hold a special meeting of shareholders on November 15, 2013, at 10:00 a.m., local time, at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822.

Penseco special meeting of shareholders to be held November 21, 2013 (see page 37).

Penseco will hold a special meeting of shareholders on November 21, 2013, at 2:00 p.m., local time, at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503.

Peoples record date set at September 27, 2013; one vote per share of Peoples common stock (see page 34).

If you owned shares of Peoples common stock at the close of business on September 27, 2013, you are entitled to notice of, and to vote at, the special meeting of shareholders. You will have one vote at the special meeting for each share of Peoples common stock you owned on September 27, 2013. On September 27, 2013, there were 3,087,406 shares of Peoples common stock outstanding.

Penseco record date set at September 27, 2013; one vote per share of Penseco common stock (see page 37).

If you owned shares of Penseco common stock at the close of business on September 27, 2013, you are entitled to notice of, and to vote at, the special meeting of shareholders. You will have one vote at the special meeting for each share of Penseco common stock you owned on September 27, 2013. On September 27, 2013, there were 3,285,145 shares of Penseco common stock outstanding.

The Companies

Peoples Financial Services Corp.

82 Franklin Avenue

Hallstead, PA 18822

(570) 879-2175

Peoples Financial Services Corp., with assets of approximately \$689.0 million as of June 30, 2013, is the holding company for Peoples Neighborhood Bank. Peoples stock is quoted on the OTCQB market place under the symbol **PFIS**. For more information, visit Peoples Neighborhood Bank website at www.peoplesnatbank.com. The information on Peoples website is not incorporated into this joint proxy statement/prospectus.

Penseco Financial Services Corporation

150 North Washington Avenue

Scranton, PA 18503

(570) 346-7741

Table of Contents

Penseco Financial Services Corporation, with assets of approximately \$919.7 million as of June 30, 2013, is the holding company for Penn Security Bank and Trust Company. Penseco stock is quoted on the OTCQB market place under the symbol PFNS. For more information, visit the Penseco website at www.pennsecurity.com. The information on Penseco's website is not incorporated into this joint proxy statement/prospectus.

We propose that Penseco merge with and into Peoples (see page 40).

Under the terms of the merger agreement, Penseco will merge with and into Peoples. As soon as practicable but no earlier than the first business day after the merger, Penn Security Bank and Trust Company will merge with and into Peoples Neighborhood Bank, and the resulting institution will be named Peoples Security Bank and Trust Company. A copy of the merger agreement is attached to this document as Annex A and a copy of the plan of merger for the banks is attached as Exhibit 3 to the merger agreement.

The boards of directors of Peoples and Penseco are unanimously recommending a vote in favor of the merger and believe that a merger of the two companies will create a stronger and more capable entity than either Peoples or Penseco is likely to be alone.

Both boards of directors of Peoples and Penseco are unanimously recommending its respective shareholders vote in favor of the merger. The reasons we are recommending approval of the merger include the potential revenue and cost synergies and the resulting increase in earnings and expansion of market diversity. Each board of directors believes the merger will provide an opportunity for the combined company to capitalize on its assets in the short-term and strengthen their prospects for continued growth over the long-term. We believe this growth will be sufficient to overcome the costs arising from the merger. Furthermore, since the two companies serve markets that are geographically complementary to the other, the combined entity would have a more diverse market concentration than either of the two companies on their own.

Penseco shareholders will receive shares of Peoples common stock (see page 70).

At the effective time of the merger, each outstanding share of Penseco common stock will be converted into and become the right to receive 1.3636 shares of Peoples common stock. The exchange ratio is subject to adjustment as discussed in greater detail under Proposal: The Merger Terms of the Merger, beginning on page 70. Peoples will not issue fractional shares of its common stock as part of the merger and will instead pay cash for any fractional share of common stock a shareholder of Penseco would have otherwise received in the merger.

Peoples has received an opinion from its financial advisor that the exchange ratio is fair, from a financial point of view, to the shareholders of Peoples (see page 51).

In connection with the merger, the board of directors of Peoples received a written opinion from Peoples' financial advisor, Boenning & Scattergood, Inc., as to the fairness, from a financial point of view, of the exchange ratio to the shareholders of Peoples. The full text of the opinion of Boenning & Scattergood, dated as of June 28, 2013, is included in this document as Annex B. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations of the review undertaken by Boenning & Scattergood. The opinion of Boenning & Scattergood is directed to Peoples' board of directors and does not constitute a recommendation to you or any other shareholder as to how to vote with respect to the merger or any other matter relating to the proposed merger. Boenning & Scattergood will receive a fee for its services, including rendering the fairness opinion, in connection with the merger.

Table of Contents

Penseco has received an opinion from its financial advisor that the exchange ratio is fair, from a financial point of view, to the shareholders of Penseco (see page 62).

In connection with the merger, the board of directors of Penseco received a written opinion from Penseco's financial advisor, Griffin Financial Group, LLC, as to the fairness of the exchange ratio, from a financial point of view, to the shareholders of Penseco. The full text of the opinion of Griffin, dated as of June 28, 2013, is included in this document as Annex C. We encourage you to read this opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations of the review undertaken by Griffin. The opinion of Griffin is directed to Penseco's board of directors and does not constitute a recommendation to you or any other shareholder as to how to vote with respect to the merger, the form of consideration to be received in the merger, or any other matter relating to the proposed merger. Griffin will receive a fee for its services, including rendering the fairness opinion, in connection with the merger.

Peoples engaged Penseco's financial consultant to assist management in preparing *pro forma* financial information.

In connection with the evaluation of a potential transaction with Peoples, Penseco engaged Cedar Hill Advisors, LLC to assist it in preparing certain financial modeling. Subsequently, in connection with the preparation of this joint proxy statement/prospectus, related registration statement and other regulatory applications, Peoples engaged Cedar Hill to assist management in the preparation of certain *pro forma* financial information related to the merger presented elsewhere in this document. Peoples and Penseco are aware of the potential conflicts that might arise from each of them engaging Cedar Hill in the same transaction, albeit for different purposes.

Peoples Shareholder Vote Required (see page 35).

Approval and Adoption of the Merger Agreement. Since Peoples' board of directors unanimously approved the merger agreement and merger, Peoples' articles of incorporation require the approval and adoption of the merger agreement and the merger by an affirmative vote, in person or by proxy, of at least a majority of the outstanding shares of Peoples common stock on the record date.

Approval and Adoption of the Amendment to the Articles of Incorporation. The affirmative vote of a majority of the shares of Peoples common stock voted at the special meeting of shareholders is required to approve and adopt the amendment to Peoples' articles of incorporation to increase the number of authorized shares of common stock from 12,500,000 to 25,000,000.

Advisory (Non-binding) Vote Regarding Golden Parachute Compensation. The affirmative vote of a majority of the votes cast by the holders of Peoples common stock entitled to vote on that matter at a shareholders' meeting at which a quorum is present, is required to approve on an advisory (non-binding) basis, golden parachute compensation payable to the named executive officers of Peoples and Penseco in connection with the merger.

Discretionary Authority to Adjourn the Special Meeting. The affirmative vote of the holders of a majority of the votes cast by the holders of Peoples common stock entitled to vote on the adjournment proposal is required to approve the proposal to grant discretionary authority to the Peoples board of directors to adjourn the special meeting if necessary to solicit additional proxies from Peoples shareholders in the event a quorum is present at our special meeting but there are insufficient votes to adopt the merger agreement.

Each holder of shares of Peoples common stock outstanding on the record date will be entitled to one vote for each share held of record. The vote required for approval and adoption of the merger agreement is a

Table of Contents

percentage of all outstanding shares of Peoples common stock. Therefore, abstentions will have the same effect as a vote against the merger agreement and the merger. Brokers who hold Peoples common stock as nominees on your behalf will not have authority to vote your shares with respect to the merger agreement or the merger unless you provide voting instructions in accordance with the directions provided by your broker. Failure to provide your broker with voting instructions will have the same effect as a vote against the merger agreement.

Penseco Shareholder Vote Required (see page 37).

Approval and Adoption of the Merger Agreement. Penseco's articles of incorporation require the approval and adoption of the merger agreement and the merger by an affirmative vote of at least 75% of the shares of Penseco common stock outstanding on the record date.

Advisory (Non-binding) Vote Regarding Golden Parachute Compensation. In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve, on an advisory basis, the compensation of Penseco's named executive officers that is based on or related to the proposed merger.

Discretionary Authority to Adjourn the Special Meeting. In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

Each holder of shares of Penseco common stock outstanding on the record date will be entitled to one vote for each share held of record. The vote required for approval and adoption of the merger agreement is a percentage of all outstanding shares of Penseco common stock. Therefore, abstentions will have the same effect as a vote against the merger agreement and the merger. Brokers who hold Penseco common stock as nominees on your behalf will not have authority to vote your shares with respect to the merger agreement or the merger unless you provide voting instructions in accordance with the directions provided by your broker. Failure to provide your broker with voting instructions will have the same effect as a vote against the merger agreement.

Peoples directors and executive officers have agreed to vote in favor of the merger (see page 35).

On September 30, 2013, the directors and executive officers of Peoples had sole or shared voting power over 222,791 shares, or 7.21 %, of the outstanding shares of Peoples common stock. These directors and officers of Peoples have agreed to vote these shares of Peoples common stock in favor of approving and adopting of the merger agreement.

Penseco directors and executive officers have agreed to vote in favor of the merger (see page 37).

On September 30, 2013, the directors and executive officers of Penseco had sole or shared voting power over 413,701 shares, or 12.6%, of the outstanding shares of Penseco common stock. These directors and officers of Penseco have agreed with Peoples to vote these shares of Penseco common stock in favor of approving and adopting the merger agreement.

Peoples and Penseco directors and management may have interests in the merger that differ from your interests (see page 83).

The directors and certain officers of each of Peoples and Penseco and their subsidiaries have interests in the merger as directors and employees that are different from or in addition to yours as a Peoples or Penseco

Table of Contents

shareholder. These interests include, among others, provisions in the merger agreement regarding the resulting Peoples and Peoples Security Bank and Trust Company boards, as well as change in control agreements, employment agreements, supplemental executive retirement plans, deferred compensation plans, indemnification, insurance, stock options, restricted stock plans, and eligibility to participate in various employee benefit plans. For purposes of the Peoples agreements and plans generally, and for certain Pensco agreements and plans, the completion of the transactions contemplated by the merger agreement will constitute a change in control. Alan Dakey is expected to enter into a consulting agreement wherein he will assist with the integration of Penn Security Bank and Trust Company into Peoples Neighborhood Bank for a six month period following the merger for which he will be paid \$95,000. Mr. Ferretti will be offered a new employment agreement which will provide for a base salary of \$175,000, a maximum bonus of twenty (20%) percent of his salary, and a supplemental executive retirement plan providing for a benefit of \$40,000 for 10 years. If the merger would have closed on June 20, 2013, Mr. Dakey would have received approximately \$668,420 (subject to a gross down) as payment under his employment agreement and supplemental executive retirement plan and Mr. Ferretti would have received approximately \$381,537 as payment under his supplemental executive retirement plan and a retention bonus. Mr. Seasock will receive approximately \$151,943 as a payment under his supplemental executive retirement plan and Ms. Dissinger will become fully vested in her supplemental executive retirement plan which will pay her \$20,000 per year for 15 years beginning when she reaches age 65. The Peoples directors will become vested in a director retirement plan, if not already vested, which will pay each director \$150 for each year of service for ten years. Mr. Scanlon will receive approximately \$38,191 which represents the value of his vested account balance under Pensco's executive deferred compensation plan. These additional interests may create potential conflicts of interest and cause some of these persons to view the proposed transaction differently than you may view it as a shareholder.

Each of Peoples and Pensco's board of directors was aware of these interests and considered them in approving and recommending the merger agreement.

Peoples and Pensco must obtain regulatory approval and satisfy other conditions before the merger is complete (see page 77).

Peoples and Pensco's obligations to complete the merger and the bank merger are subject to various conditions that are usual and customary for this kind of transaction. These conditions include obtaining approval from the Federal Reserve Board, the FDIC and the Pennsylvania Department of Banking and Securities. As of the date of this document, appropriate applications for approval have been filed. On October 7, 2013, Peoples received approval from the Federal Reserve Bank of Philadelphia, acting on delegated authority of the Federal Reserve Board, of its application to merge with Pensco. In addition to the required regulatory approvals, the merger will only be completed if certain conditions are met. See Proposal The Merger Terms of the Merger Conditions to Merger .

Amendment or termination of the merger agreement is possible (see page 79).

Peoples and Pensco can agree to amend the merger agreement in any way, except that, after approval by Peoples and Pensco shareholders at their special meetings, Peoples and Pensco cannot change the amount of Peoples common stock Pensco shareholders will receive in the transaction from what is provided in the merger agreement. On September 17, 2013, Peoples and Pensco entered into an Amendment No. 1 to the Agreement and Plan of Merger which would permit Peoples to pursue a listing of its common stock on either The Nasdaq Stock Market, Inc. or the New York Stock Exchange following the merger.

Peoples and Pensco may agree to terminate the merger agreement and not complete the merger at any time before the merger is completed. Each company also may unilaterally terminate the merger agreement in certain circumstances. These include the failure to complete the merger by March 31, 2014, unless the terminating company's breach is the reason the merger has not been completed.

Table of Contents

Rights of Penseco shareholders differ from those of Peoples shareholders (see page 171).

When the merger is complete, Penseco shareholders will automatically become Peoples shareholders. The rights of Penseco shareholders differ from the rights of Peoples shareholders in certain important ways. Many of these differences have to do with provisions in Penseco's articles of incorporation and bylaws that differ from those of Peoples. See [Comparison of Shareholders' Rights](#).

Material U.S. federal income tax consequences of the merger (see page 89).

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, and the holders of Penseco common stock generally will not recognize any gain or loss for U.S. federal income tax purposes on the exchange of shares of Penseco common stock for shares of Peoples common stock in the merger, except with respect to any cash received in lieu of fractional shares. This tax treatment may not apply to all Penseco shareholders.

We urge you to consult your tax advisor for a full understanding of the specific tax consequences of the merger to you. Tax matters are very complicated and, in many cases, tax consequences of the merger will depend on your particular facts and circumstances. See [Proposal The Merger Material U.S. Federal Income Tax Consequences](#), beginning at page 89.

Peoples and Penseco shareholders are entitled to dissenters' rights (see page 92).

As a Peoples or Penseco shareholder, you have the right under Pennsylvania law to dissent from the merger and to demand and receive a cash payment for the statutorily determined fair value of your common stock in the event that the merger is completed. The statutorily determined fair value could be more or less than the value of the merger consideration. In order to assert dissenters' rights, shareholders must precisely follow the process described in [Proposal The Merger Rights of Dissenting Shareholders](#) and in Annex D. These sources describe provisions of Pennsylvania law related to dissenters' rights. You also are encouraged to consult with your own legal advisor as to your dissenters' rights under Pennsylvania law. Failure to strictly comply with these procedures will result in the loss of these dissenters' rights and your ability to receive cash for the statutorily determined fair value of your common stock of either Peoples or Penseco.

Peoples will pursue a Nasdaq or NYSE listing of its common stock (see page 91).

Peoples and Penseco have agreed to use their commercially reasonable best efforts to obtain a listing for trading of Peoples common stock on The Nasdaq Stock Market, Inc. (Nasdaq) or the New York Stock Exchange (NYSE) as soon as practical after the effective time of the merger. However, Peoples common stock may not become listed on Nasdaq, NYSE, or any other exchange. See page 32 of [Risk Factors](#).

Peoples and Penseco will maintain a significant presence in their communities (see page 77).

For at least three years after the effective time of the merger, the headquarters and loan operations of the companied company and bank will be located in Scranton, Pennsylvania, and the deposit operations and data processing of the companied company and bank will be located in Hallstead, Pennsylvania.

Market Price and Dividend Information

Peoples

As of September 30, 2013, there were 3,087,406 shares of Peoples common stock outstanding, which were held by approximately 1,044 holders of record and outstanding options that were exercisable on that date (or within 60 days of that date) for 5,600 additional shares of Peoples common stock. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms, and others.

Table of Contents

Additionally, a substantial source of Peoples' income from which it can pay dividends is the receipt of dividends from Peoples Neighborhood Bank. The availability of dividends from Peoples Neighborhood Bank is limited by various statutes and regulations. It also is possible, depending on the financial condition of Peoples Neighborhood Bank, and other factors, that the applicable regulatory authorities could assert that payment of dividends or other payments is an unsafe or unsound banking practice. In the event that Peoples Neighborhood Bank is unable to pay dividends to Peoples, Peoples may not be able to pay dividends on its common stock.

Peoples common stock is listed on the OTCQB market place under the symbol PFIS. The following table shows, for the indicated periods, the high and low sales prices per share for Peoples common stock as reported on the OTCQB market place and dividends declared per share of Peoples common stock. These prices may include retail markups, markdowns, or commissions.

	High	Low	Dividend Declared
2013			
First Quarter	\$ 34.00	\$ 30.05	\$ 0.23
Second Quarter	39.90	33.00	0.23
Third Quarter	35.50	33.50	0.23
Fourth Quarter (through October 4, 2013)	35.00	34.00	
2012			
First Quarter	\$ 29.00	\$ 27.50	\$ 0.21
Second Quarter	30.00	28.00	0.21
Third Quarter	31.00	28.80	0.22
Fourth Quarter	31.00	29.50	0.22
2011			
First Quarter	\$ 28.00	\$ 26.31	\$ 0.20
Second Quarter	27.50	25.50	0.20
Third Quarter	28.25	26.90	0.20
Fourth Quarter	28.25	27.05	0.20

On June 28, 2013, the last full trading day before the public announcement of the execution of the merger agreement, and on October 4, 2013, the latest practicable trading day before the printing of this document, the high, low and closing sales prices for Peoples common stock were as follows:

	June 28, 2013			October 4, 2013		
	High	Low	Closing	High	Low	Closing
Peoples Common Stock	\$ 35.25	\$ 35.25	\$ 35.25	\$ 35.00	\$ 35.00	\$ 35.00
<i>Penseco</i>						

As of September 30, 2013, there were 3,285,145 shares of Penseco common stock outstanding which were held by approximately 1,075 holders of record. The number of shareholders does not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms, and others.

Penseco common stock is listed on the OTCQB market place under the symbol PFNS. The following table shows, for the indicated periods, the high and low sales prices per share for Penseco common stock as

Table of Contents

reported on the OTCQB market place and dividends declared per share of Penseco common stock. These prices may include retail markups, markdowns, or commissions.

	High	Low	Dividend Declared
2013			
First Quarter	\$ 38.00	\$ 37.00	\$ 0.42
Second Quarter	41.50	37.10	0.42
Third Quarter	45.50	40.50	0.42
Fourth Quarter (through October 4, 2013)	45.00	43.85	
2012			
First Quarter	\$ 40.00	\$ 36.58	\$ 0.42
Second Quarter	41.00	37.50	0.42
Third Quarter	38.35	36.90	0.42
Fourth Quarter	39.00	36.95	0.42
2011			
First Quarter	\$ 40.00	\$ 35.55	\$ 0.42
Second Quarter	39.25	37.00	0.42
Third Quarter	40.00	36.25	0.42
Fourth Quarter	39.00	36.87	0.42

On June 28, 2013, the last full trading day before the public announcement of the execution of the merger agreement, and on October 4, 2013, the latest practicable trading day before the printing of this document, the high, low and closing sales prices for Penseco common stock were as follows:

	June 28, 2013			October 4, 2013		
	High	Low	Closing	High	Low	Closing
Penseco Common Stock	\$ 41.50	\$ 38.00	\$ 41.50	\$ 44.00	\$ 44.00	\$ 44.00

Pursuant to the merger agreement, Peoples and Penseco have agreed to coordinate with one another with respect to regular quarterly dividends to ensure that holders of Penseco common stock do not receive two dividends, or fail to receive one dividend, for any quarter with respect to their shares of Penseco common stock and any shares of Peoples common stock received in the merger. In addition, Peoples and Penseco have agreed that for at least five years after the merger, Peoples will pay a quarterly cash dividend in an amount no less than \$.31 per share, provided that sufficient funds are legally available for payment of dividends and that Peoples and the combined bank remains well-capitalized in accordance with applicable regulatory guidelines. The post-merger quarterly dividend may only be reduced below \$.31 per share upon the approval of 80% of the board of directors.

Comparative Market Value

The following table sets forth the market value per share of Peoples and Penseco common stock and the equivalent market value per share of Penseco common stock on June 28, 2013 (the date of the public announcement of the merger) and October 4, 2013 (the latest practicable trading day prior to the date of this document). The equivalent market value is based upon an assumed exchange ratio of 1.3636 shares of Peoples common stock multiplied by the closing sales price of Peoples common stock on the specified date.

	Peoples Historical	Penseco Historical	Penseco Equivalent Market Value
June 28, 2013	\$ 35.25	\$ 41.50	\$ 48.07
October 4, 2013	\$ 35.00	\$ 44.00	\$ 47.73

Table of Contents

Advisory (Non-binding) Votes on Golden Parachute Compensation (Pages 179 and 180)

In accordance with SEC rules, Peoples and Pensco are providing shareholders with the opportunity to vote to approve on an advisory (non-binding) basis, certain payments that will or may be made to certain named executive officers in connection with the merger, as reported in the Summary of Golden Parachute Arrangements tables on pages 84 and 86, and the associated narrative discussions.

Adjournment or Postponement Proposals (Page 180)

You are being asked to approve a proposal to grant the Peoples and Pensco boards of directors discretionary authority to adjourn or postpone the special meetings, if necessary, to solicit additional proxies from their shareholders for the merger proposal in the event a quorum is present at the special meeting but there are insufficient votes to adopt the merger agreement.

Table of Contents**Selected Historical Consolidated Financial Data of Peoples**

The following is a summary of consolidated financial information with respect to Peoples as of and for the six months ended June 30, 2013 and 2012, and as of and for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008. The results for the six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year. This information is derived from, and should be read in conjunction with, Peoples' consolidated financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Six Months Ended June 30, 2013 and 2012, Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2012 and 2011, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2011 and 2010, each of which can be found elsewhere in this joint proxy statement/prospectus. In the opinion of management of Peoples, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2012 and 2011, and Management's Discussion and Analysis of Financial Condition and Results of Operations of Peoples Financial Services Corp. for the Years Ended December 31, 2011 and 2010, each of which can be found elsewhere in this joint proxy statement/prospectus. In the opinion of management of Peoples, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of results for or as of the six month interim periods have been made.

(Dollars in thousands, except per share data)	Year Ended December 31,	(Unaudited) As of or for the 6 months ended June 30,						
		2012	2011	2010	2009	2008	2013	2012
Condensed statements of financial performance:								
Interest income		\$ 27,779	\$ 27,350	\$ 25,577	\$ 24,273	\$ 25,479	\$ 14,111	\$ 13,955
Interest expense		5,112	5,639	6,498	7,258	9,154	2,148	2,573
Net interest income		22,667	21,711	19,079	17,015	16,325	11,963	11,382
Provision for loan losses		1,695	1,794	2,202	1,735	713	330	1,035
Net interest income after provision for loan losses		20,972	19,917	16,877	15,280	15,612	11,633	10,347
Noninterest income (loss)		4,846	5,567	4,290	3,082	(1,809)	2,348	2,573
Noninterest expense		14,713	15,310	13,245	12,390	10,677	8,109	7,212
Income before income taxes		11,105	10,174	7,922	5,972	3,126	5,872	5,708
Provision for income tax expense		1,985	2,357	1,437	923	87	1,310	1,004
Net income		\$ 9,120	\$ 7,817	\$ 6,485	\$ 5,049	\$ 3,039	\$ 4,562	\$ 4,704
Condensed statements of financial position:								
Investment securities		\$ 147,780	\$ 139,899	\$ 121,772	\$ 130,506	\$ 107,589	\$ 138,758	\$ 128,596
Net loans		459,192	439,754	386,672	332,196	313,606	485,478	451,138
Other assets		64,551	41,751	50,143	53,781	51,181	64,738	58,980
Total assets		\$ 671,523	\$ 621,404	\$ 558,587	\$ 516,483	\$ 472,376	\$ 688,974	\$ 638,714
Deposits		\$ 574,311	\$ 494,283	\$ 438,734	\$ 410,038	\$ 371,268	\$ 596,935	\$ 538,111
Short-term borrowings		12,764	43,791	38,724	20,439	18,432	17,972	13,233
Long-term debt		13,130	18,927	27,336	38,750	39,691	2,717	18,533
Other liabilities		5,122	4,790	3,277	2,286	3,265	3,760	4,961
Stockholders' equity		66,196	59,613	50,516	44,970	39,720	67,590	63,876
Total liabilities and stockholders' equity		\$ 671,523	\$ 621,404	\$ 558,587	\$ 516,483	\$ 472,376	\$ 688,974	\$ 638,714

Table of Contents

Year Ended December 31,							(Unaudited)	
	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,		
							2013	2012
Per share data:								
Net income	\$ 2.93	\$ 2.49	\$ 2.07	\$ 1.61	\$ 0.97	\$ 1.48	\$ 1.51	
Cash dividends declared	\$ 0.86	\$ 0.80	\$ 0.79	\$ 0.76	\$ 0.76	\$ 0.46	\$ 0.42	
Stockholders' equity	\$ 21.46	\$ 19.11	\$ 16.07	\$ 14.34	\$ 12.69	\$ 21.89	\$ 20.48	
Cash dividends declared as a percentage of net income	29.40%	32.28%	38.24%	47.15%	79.53%	31.13%	27.81%	
Average common shares outstanding	3,117,098	3,136,663	3,139,606	3,133,518	3,128,170	3,085,216	3,118,269	
Selected ratios (based on average balances) (unaudited):								
Net income as a percentage of total assets	1.42%	1.33%	1.18%	1.07%	0.68%	1.37%	1.51%	
Net income as a percentage of stockholders' equity	14.91	14.80	13.87	12.62	7.53	14.02	16.02	
Stockholders' equity as a percentage of total assets	9.55	8.99	8.53	8.50	9.01	9.77	9.42	
Tier I capital as a percentage of adjusted total assets	9.17	9.42	9.19	9.92	9.31	12.11	11.88	
Net interest income as a percentage of earning assets	3.97	4.18	4.00	4.23	4.25	3.99	4.10	
Loans, net, as a percentage of deposits	87.03%	89.70%	84.67%	87.33%	86.38%	82.85%	91.12%	
Selected ratios and data (based on period end balances):								
Tier I capital as a percentage of risk-weighted assets	12.11%	11.57%	11.72%	12.30%	12.26%	9.54%	9.33%	
Total capital as a percentage of risk-weighted assets	13.36	12.69	12.68	13.18	13.10	13.38	13.07	
Allowance for loan losses as a percentage of loans, net (unaudited)	1.41	1.20	1.05	0.99	0.95	1.37	1.29	
Nonperforming loans as a percentage of loans, net (unaudited)	2.24%	2.30%	1.77%	0.99%	1.63%	2.39%	2.14%	
Note: Average balances were calculated using average daily balances. Average balances for loans include nonaccrual loans. Tax-equivalent adjustments were calculated using the prevailing statutory rate of 34.0 percent.								

Table of Contents**Selected Historical Consolidated Financial Data of Penseco**

The following selected financial information for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008 is derived from audited consolidated financial statements of Penseco. The financial information as of and for the six months ended June 30, 2013 and 2012 is derived from unaudited financial statements. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results of operations for the full year or any other interim period. Penseco's management prepared the unaudited information on the same basis as it prepared Penseco's audited consolidated financial statements. In the opinion of Penseco's management, this information reflects all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of this data for those dates. You should read this information in conjunction with Penseco's consolidated financial statements and related notes included in Penseco's Annual Report on Form 10-K for the year ended December 31, 2012, and Penseco's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, which are incorporated by reference herein and from which this information is derived. Please see "Where You Can Find More Information" on page 181.

(in thousands, except per share amounts)

RESULTS OF OPERATIONS:

	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,	
						2013	2012
Interest Income	\$ 37,591	\$ 39,707	\$ 41,745	\$ 40,151	\$ 33,898	\$ 17,627	\$ 19,148
Interest Expense	5,362	7,339	8,356	9,580	10,830	1,994	2,888
Net Interest Income	32,229	32,368	33,389	30,571	23,068	15,633	16,260
Provision for Loan and Lease Losses	924	2,381	1,999	2,260	861	800	306
Net Interest Income after Provision for Loan and Lease Losses	31,305	29,987	31,390	28,311	22,207	14,833	15,954
Non-Interest Income	11,441	12,619	12,152	10,369	11,036	5,883	5,516
Non-Interest Expenses	29,099	29,041	28,689	28,640	22,384	13,981	14,601
Income Taxes	3,058	3,034	3,287	1,813	2,386	1,370	1,540
Net Income	\$ 10,589	\$ 10,531	\$ 11,566	\$ 8,227	\$ 8,473	\$ 5,365	\$ 5,329

BALANCE SHEET AMOUNTS (As of December 31):

Assets	\$ 918,042	\$ 925,532	\$ 916,837	\$ 884,034	\$ 629,627	\$ 919,669	\$ 914,343
Investment Securities	177,293	191,208	217,044	195,930	151,912	172,218	184,886
Net Loans	616,580	624,811	608,605	597,670	435,873	634,801	632,032
Deposits	721,948	720,518	691,032	645,434	424,725	733,134	712,400
Long-Term Borrowings	45,397	58,220	68,835	68,094	72,720	35,633	51,792
Stockholders' Equity	\$ 132,446	\$ 127,333	\$ 120,466	\$ 116,024	\$ 72,361	\$ 132,885	\$ 130,367

Table of Contents

	2012	2011	2010	2009	2008	As of or for the 6 months ended June 30,	
						2013	2012
PER SHARE AMOUNTS:							
Earnings per Share Basic	\$ 3.23	\$ 3.21	\$ 3.53	\$ 2.75	\$ 3.94	\$ 1.64	\$ 1.63
Earnings per Share Diluted	\$ 3.23	\$ 3.21	\$ 3.53	\$ 2.75	\$ 3.94	\$ 1.64	\$ 1.63
Dividends per Share	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.68	\$ 1.66	\$ 0.84	\$ 0.84
Book Value per Share	\$ 40.43	\$ 38.87	\$ 36.77	\$ 38.75	\$ 33.69	\$ 40.56	\$ 39.79
Weighted Average Common Shares							
Outstanding Basic	3,276,079	3,276,079	3,276,079	2,994,059	2,148,000	3,276,079	3,276,079
Weighted Average Common Shares							
Outstanding Diluted	3,276,411	3,276,079	3,276,079	2,994,059	2,148,000	3,277,516	3,276,100
FINANCIAL RATIOS:							
Net Interest Margin (1)	4.05%	4.02%	4.39%	4.50%	4.34%	3.92%	4.09%
Return on Average Assets	1.14	1.13	1.30	1.02	1.37	1.16	1.15
Return on Average Equity	8.07	8.45	9.73	7.89	11.90	8.01	8.24
Average Equity to Average Assets	14.18	13.37	13.38	12.94	11.54	14.47	13.99
Dividend Payout Ratio	52.01%	52.34%	47.59%	61.09%	42.13%	51.22%	51.53%

(1) Net interest margin is presented on a tax equivalent basis.

Table of Contents

Selected Unaudited *Pro Forma* Combined Financial Data for Peoples

The following table shows information about the combined company's financial condition and results of operations, after giving effect to the merger. This information is called unaudited *pro forma* financial information in this document. The information under Combined Income Statement in the table below gives effect to the *pro forma* results for the six months ended June 30, 2013 and the year ended December 31, 2012. The information under Combined Balance Sheet in the table below assumes the merger was completed on June 30, 2013. This *pro forma* financial information assumes that the merger is accounted for as a reverse merger using the acquisition method of accounting and represents a current estimate of the financial information based on available financial information of Peoples and Pensco. See Proposal The Merger Accounting Treatment on page 89.

The unaudited *pro forma* combined financial information includes adjustments to reflect the assets and liabilities of Peoples at their estimated fair values at or near June 30, 2013. The unaudited *pro forma* data, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of factors that may result as a consequence of the merger or consider any potential impacts of current market conditions or the merger on revenues, expense efficiencies, asset dispositions and share repurchases, among other factors, nor the impact of possible business model changes. As a result, unaudited *pro forma* data is presented for illustrative purposes only and does not represent an attempt to predict or suggest future results.

The information presented below should be read together with the historical consolidated financial statements of Peoples and Pensco, including the related notes, and together with the consolidated historical financial data for Peoples and Pensco and the other *pro forma* financial information, including the related notes, appearing elsewhere in this document. See Unaudited *Pro Forma* Combined Financial Information beginning on page F-66 in the joint proxy statement/prospectus. In addition, as explained in more detail in the accompanying notes to the unaudited *pro forma* financial information found elsewhere in this joint proxy statement/prospectus, the allocation of the purchase price reflected in the Selected Unaudited *Pro Forma* Combined Financial Data is subject to adjustment and will vary from the actual purchase price allocation that will be recorded upon completion of the merger based upon changes in the balance sheet including fair value estimates.

Table of Contents**Selected Unaudited Pro Forma Combined Financial Data**

(\$ In Thousands, Except Per Share Data)

	For the Year Ended December 31, 2012	For the Six Months Ended June 30, 2013
Combined Income Statement (1)(2):		
Interest income	\$ 65,150	\$ 31,628
Interest expense	9,316	3,563
Net interest income	55,834	28,065
Provision for loan losses	2,619	1,130
Net interest income after provision for loan losses	53,215	26,935
Noninterest income	16,287	8,231
Noninterest expenses	44,649	22,464
Income before income taxes	24,853	12,702
Provision for Income tax expense	5,078	2,706
Net income	\$ 19,775	\$ 9,996
Combined Balance Sheets:		
Investment securities		\$ 310,564
Net loans		1,121,001
Other assets		207,908
Total assets		\$ 1,639,473
Total deposits		\$ 1,333,144
Short-term borrowing		26,160
Long-term borrowing		38,350
Other liabilities		15,894
Stockholders' equity		225,925
Total liabilities and stockholders' equity		\$ 1,639,473

Table of Contents**Comparative Pro Forma Per Share Data**

Presented below is the Penseco and Peoples historical per share financial data, the unaudited *pro forma* combined per share financial data, and the Penseco *pro forma* equivalent per share financial data for the six months ended June 30, 2013 and the year ended December 31, 2012. This information should be considered together with the financial statements and related notes of Penseco and Peoples and with the unaudited *pro forma* combined financial data included under *Unaudited Pro Forma Combined Financial Information* found elsewhere in this joint proxy statement/prospectus.

Unaudited Pro Forma Per Share Data**For The Six Months Ended June 30, 2013**

(\$ In Thousands, Except Per Share Data)

	Accounting Acquirer Penseco Financial Services Corporation	Accounting Acquiree Peoples Financial Services Corp.	Pro Forma Peoples Combined (1)(2)(3)(4)	Pro Forma Equivalent Penseco Share (5)
Earnings per share:				
For the six months ended June 30, 2013				
Net income per share (Basic)	\$ 1.64	\$ 1.48	\$ 1.33	\$ 1.81
Net income per share (Diluted)	\$ 1.64	\$ 1.48	\$ 1.33	\$ 1.81
Dividends Declared:				
For the six months ended June 30, 2013				
	\$ 0.84	\$ 0.46	\$ 0.62	\$ 0.85
Book Value:				
As of June 30, 2013				
	\$ 40.56	\$ 21.89	\$ 29.96	\$ 40.85
Tangible Book Value:				
As of June 30, 2013				
	\$ 32.28	\$ 21.74	\$ 22.39	\$ 30.53

Unaudited Pro Forma Per Share Data**For The Year Ended December 31, 2012**

(Amounts In Thousands, except per share data)

	Accounting Acquirer Penseco Financial Services Corporation	Accounting Acquiree Peoples Financial Services Corp.	Pro Forma Peoples Combined (1)(2)(3)(4)	Pro Forma Equivalent Penseco Share (5)
Earnings per share:				
For the year ended December 31, 2012				
Net income (loss) per share (Basic)	\$ 3.23	\$ 2.93	\$ 2.61	\$ 3.56
Net income (loss) per share (Diluted)	\$ 3.23	\$ 2.93	\$ 2.61	\$ 3.56
Dividends Declared:				
For the year ended December 31, 2012				
	\$ 1.68	\$ 0.86	\$ 1.24	\$ 1.69
Book Value:				
As of December 31, 2012				
	\$ 40.43	\$ 21.46	\$ 29.73	\$ 40.54
Tangible Book Value:				
As of December 31, 2012				
	\$ 32.11	\$ 21.29	\$ 22.13	\$ 30.18

Table of Contents

- (1) The pro forma combined basic earnings and diluted earnings per share of Peoples common stock is based on the pro forma combined net income for Peoples and Penseco divided by the pro forma common shares or diluted common shares of the combined entities. The pro forma information includes adjustments related to the fair value of assets and liabilities of Peoples and is subject to adjustment as additional information becomes available and as additional analysis are performed.
- (2) The pro forma earnings per share information does not include anticipated cost savings or revenue enhancements, nor does it include one-time merger and integration expenses which will be expensed against income. Peoples and Penseco currently anticipates potential annual pre-tax cost savings following the merger will be approximately \$7.1 million pre-tax, which are expectedly to largely be realized within one year after the merger, but there is no assurance that the anticipated cost savings will be realized on the anticipated time schedule or at all.
- (3) The pro forma combined balance sheet and book value per share data does include the impact of merger expenses on the balance sheet with Peoples after tax charges currently estimated at \$1.1 million, illustrated as a pro forma fair value liability accrual, and Penseco's after-tax estimated charges of \$0.9 million, illustrated as a pro forma adjustment to retained earnings. The pro forma combined book value and tangible book value per share of Peoples common stock is based on the pro forma combined common stockholders' equity of Peoples and Penseco divided by total pro forma common shares of the combined entities.
- (4) Pursuant to the merger agreement, Peoples and Penseco have agreed that for at least five years after the merger, Peoples will pay a quarterly cash dividend in an amount no less than \$0.31 per share, provided that sufficient funds are legally available for payment of dividends and that Peoples and the combined bank remains well-capitalized in accordance with applicable regulatory guidelines. The post-merger quarterly dividend may only be reduced below \$.31 per share upon the approval of 80% of the board of directors, accordingly the pro forma Peoples dividend is illustrated at \$0.31 per quarter.
- (5) Pro forma equivalent Penseco per share amount is calculated by multiplying the pro forma combined per share amount by the assumed exchange ratio of 1.3636.

Table of Contents

Risk Factors

In addition to the other information included and incorporated by reference into this joint proxy statement/prospectus, including the matters addressed in A Warning About Forward-Looking Information, on page 34, Peoples and Penseco shareholders should carefully consider the matters described below to determine whether to approve and adopt the merger agreement.

Risks Relating to the Merger

Because the market price of Peoples common stock will fluctuate, Penseco shareholders cannot be sure of the trading price of the merger consideration they will receive.

Upon completion of the merger, each share of Penseco common stock will be converted into the right to receive merger consideration consisting of shares of Peoples common stock. The exchange ratio in the merger agreement will not be adjusted in the event of any change in the stock prices of Peoples or Penseco prior to the merger. There also will be a period of time between the date when shareholders of each of Peoples and Penseco vote on the merger agreement and the date when the merger is completed. The relative prices of Peoples and Penseco common stock may vary between the date of this joint proxy statement/prospectus, the dates of the special meetings, and the date of completion of the merger. The market price of Peoples and Penseco common stock may change as a result of a variety of factors, including general market and economic conditions, changes in its business, operations and prospects, and regulatory considerations. Many of these factors are beyond the control of Peoples or Penseco and are not necessarily related to a change in the financial performance or condition of Peoples or Penseco. As Peoples and Penseco market share prices fluctuate, based on numerous factors, the value of the shares of Peoples common stock that a Penseco shareholder will receive will correspondingly fluctuate. In addition, Peoples is not listed and does not trade on a national exchange. It is impossible to predict accurately the market price of Peoples common stock after completion of the merger. Accordingly, the prices of Peoples and Penseco common stock on the dates of the special meetings may not be indicative of their prices immediately prior to completion of the merger and the price of Peoples common stock after the merger is completed.

See Summary Market Price and Dividend Information . We urge you to obtain current market quotations for Peoples common stock.

The combined company will incur significant transaction and merger-related costs in connection with the merger.

Peoples and Penseco expect to incur costs associated with combining the operations of the two companies. Peoples and Penseco have just recently begun collecting information in order to formulate detailed integration plans to deliver planned synergies. Additional unanticipated costs may be incurred in the integration of the businesses of Peoples and Penseco. Whether or not the merger is consummated, Peoples and Penseco will incur substantial expenses, such as legal, accounting, printing and financial advisory fees, in pursuing the merger. Although Peoples and Penseco expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and merger-related costs over time, this net benefit may not be achieved in the near term, or at all.

Some of the conditions to closing of the merger may result in delay or prevent completion of the merger, which may adversely affect the value of our companies securities.

Completion of the merger is conditioned upon the receipt of certain governmental consents and approvals, including consents and approvals required by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. Failure to obtain these consents would prevent consummation of the merger. Even if the approvals are obtained, the effort

Table of Contents

involved may delay consummation of the merger. Governmental authorities may also impose conditions in connection with the merger that may adversely affect the combined company's operations after the merger. However, neither Peoples nor Pensco is required to take any action or agree to any condition or restriction in connection with obtaining any approvals that would reasonably be expected to have a material adverse effect on Pensco, Peoples or the combined company.

The merger may distract our management from their other responsibilities.

The merger could cause the management of the companies to focus their time and energies on matters related to the merger that otherwise would be directed to the companies' business and operations. Any such distraction on the part of management, if significant, could affect management's ability to service existing business and develop new business and adversely affect the combined company's business and earnings following the merger.

Peoples and Pensco directors and executive officers may have interests in the merger that differ from your interests.

Some of Peoples' and Pensco's directors and executive officers have interests in the transaction other than their interests as shareholders. For example, after the merger of Peoples and Pensco, six (6) current directors of Peoples and eight (8) current directors of Pensco will continue to serve on Peoples' combined board of directors. In addition:

William E. Aubrey II shall serve as the chairman of the board of Peoples and the board of directors has agreed to reappoint him until the Peoples 2017 Annual Meeting of Shareholders.

Alan W. Dakey, a director and the President and Chief Executive Officer of Peoples previously entered into an employment agreement with Peoples that would provide him with severance payments upon a termination after a change in control. The consummation of the merger will also afford him vested benefits and payments in certain benefit plans.

Alan Dakey is expected to enter into a consulting agreement wherein he will assist with the integration of Penn Security Bank and Trust Company into Peoples Neighborhood Bank for a six month period following the merger for which he will be paid \$95,000.

Peoples Neighborhood Bank and Penn Security Bank and Trust Company employees will be immediately eligible for participation in all benefit plans on the terms of such benefit plans.

Alan W. Dakey, Scott A. Seasock, and Joseph M. Ferretti will receive the actuarially equivalent of their retirement benefits under their respective supplemental executive retirement plan agreements.

Debra E. Dissinger will become vested in her supplemental executive retirement plan agreement.

Joseph M. Ferretti will be offered a new employment agreement providing for certain benefits and an increase in base salary.

The Peoples directors will become fully vested in the Peoples Directors' Retirement Plan.

Peoples and/or Pensco may award retention bonuses to certain employees, who have not yet been identified.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

Peoples has offered employment to Craig W. Best and Thomas P. Tulaney and other Pensco executive officers and will retain the employment of Scott A. Seasock, Joseph M. Ferretti and Debra E. Dissinger.

These and certain other additional interests of Peoples and Pensco's directors and executive officers are described in detail in Proposal The Merger Interests of Directors, Officers, and Others in the Merger, found elsewhere in this document. These circumstances may cause some of Peoples and Pensco's directors and executive officers to view the proposed merger differently than you view it.

Table of Contents

The fairness opinions obtained by Peoples and Penseco from their financial advisors will not reflect changes in circumstances after the date of the fairness opinions.

Boenning & Scattergood, Inc., Peoples' financial advisor in connection with the merger, and Griffin Financial Group, LLC, Penseco's financial advisor in connection with the merger have delivered to the boards of directors of Peoples and Penseco, respectively, their opinions dated as of June 28, 2013. Both opinions state that as of the date of such opinions, and based upon and subject to the factors and assumptions set forth therein, the merger consideration to be paid to the holders of the outstanding shares of Penseco common stock pursuant to the merger agreement was fair from a financial point of view to the shareholders of Peoples and Penseco. As a result, Peoples and Penseco shareholders should be aware that the opinions do not address the fairness of the merger consideration at any time other than as of June 28, 2013. The opinions do not reflect changes that may occur or may have occurred after the date of such opinions, including changes to the operations and prospects of Peoples or Penseco, changes in general market and economic conditions or regulatory or other factors. Any such changes, or changes in other factors on which the opinions are based, may materially alter or affect the estimated valuation conclusions reached in such opinions for Peoples and Penseco shareholders.

The unaudited pro forma financial data included in this joint proxy statement/prospectus are preliminary and our actual financial position and results of operations after the merger may differ materially from the unaudited pro forma financial data included in this joint proxy statement/prospectus.

The unaudited *pro forma* financial data in this joint proxy statement/prospectus are presented for illustrative purposes only and are not necessarily indicative of what the combined company's actual financial position or results of operations would have been had the merger been completed on the dates indicated. The *pro forma* financial data reflect adjustments, which are based upon preliminary estimates, to record Peoples' identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this document is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of Peoples as of the date of the completion of the merger. Accordingly, the final purchase accounting adjustments may differ materially from the *pro forma* adjustments reflected in this document.

After the merger is complete, Penseco shareholders will become Peoples shareholders and will have different rights than their current rights.

Upon completion of the merger, Penseco shareholders will become Peoples shareholders. Differences in Penseco's articles of incorporation and bylaws and Peoples' articles of incorporation and bylaws will result in changes to the rights of Penseco shareholders who become Peoples shareholders. For more information, see *Comparison of Shareholders' Rights*, beginning on page 171 of this document. Shareholders of Penseco may conclude that their current rights under Penseco's articles of incorporation and bylaws are more advantageous than the rights they may have as a Peoples shareholder under Peoples' articles of incorporation and bylaws.

Upon completion of the merger, Peoples shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

Peoples shareholders currently have the right to vote in the election of the board of directors of Peoples and on other matters affecting Peoples. When the merger occurs, the shares of Peoples common stock held by the current Peoples shareholders will represent a percentage ownership of the combined company that is much smaller than the shareholder's current percentage ownership of Peoples. In fact, it is expected that the former shareholders of Peoples as a group will own only approximately 41% of the outstanding shares of Peoples immediately after the merger. Because of this, Peoples' shareholders will have less influence on the management and policies of the combined company than they now have on the management and policies of Peoples. In addition, the initial board of directors of the combined company will include 14 members, eight of whom are current members of the Penseco board of directors.

Table of Contents

If the merger is not completed, Peoples and Penseco will have incurred substantial expenses without realizing the expected benefits.

Peoples and Penseco will incur substantial expenses in connection with the merger. The completion of the merger depends on the satisfaction of specified conditions and the receipt of regulatory approvals. Penseco and Peoples cannot guarantee that these conditions will be met. If the merger is not completed, these expenses could have a material adverse impact on the financial condition of Peoples and Penseco because they would not have realized the expected benefits.

The merger agreement limits the ability of Peoples and Penseco to pursue alternatives to the merger.

The merger agreement contains no shop provisions that, subject to specified exceptions, limit the ability of Peoples and Penseco to solicit, encourage, discuss, recommend or commit to alternative acquisition proposals, as well as a termination fee that is payable by Penseco under certain circumstances. These provisions might discourage potential competing transaction partners that might have an interest in acquiring all or a significant part of Peoples or Penseco from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger, or might result in a potential competing transaction partner proposing to pay a lower per share price to acquire Peoples or Penseco than it might otherwise have proposed to pay.

Failure to complete the merger in certain circumstances could require Peoples or Penseco to pay a termination fee.

If the merger should fail to occur in certain circumstances that relate to a possible combination of Peoples or Penseco with another acquirer, Peoples or Penseco may be obligated to pay the other \$3,700,000 as a termination fee. See Proposal The Merger Terms of the Merger Termination Fee .

Risks Relating to Peoples and Its Business

The soundness of other financial services institutions may adversely affect our credit risk.

We rely on other financial services institutions through trading, clearing, counterparty, and other relationships. We maintain limits and monitor concentration levels of our counterparties as specified in our internal policies. Our reliance on other financial services institutions exposes us to credit risk in the event of default by these institutions or counterparties. These losses could adversely affect our results of operations and financial condition.

Peoples is subject to credit risk which may negatively affect our financial condition and results of operations.

As of June 30, 2013, approximately 72.5% of Peoples' loan portfolio consisted of commercial and industrial, construction, and commercial real estate loans. These types of loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans are also typically larger than residential real estate loans and consumer loans. Because Peoples' loan portfolio contains a significant number of commercial and industrial, construction, and commercial real estate loans some of which have large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on Peoples' financial condition and results of operations.

Peoples' ability to pay dividends is subject to limitations.

The merger agreement contemplates that, unless 80% of the board of directors determines otherwise, the combined company will pay a quarterly cash dividend in an amount no less than \$0.31 per share for five years

Table of Contents

after the effective time of the merger, provided that sufficient funds are legally available, and that Peoples and Peoples Security Bank and Trust Company remain well-capitalized in accordance with applicable regulatory guidelines.

After the merger, Peoples will continue to be a bank holding company and its operations will continue to be conducted by direct and indirect subsidiaries, each of which is a separate and distinct legal entity. Substantially all of Peoples' assets are and will be held by its direct and indirect subsidiaries.

Peoples' ability to pay dividends depends on its receipt of dividends from its direct and indirect subsidiaries. After the merger, its principal banking subsidiary, Peoples Security Bank and Trust Company, will be its primary source of dividends. As a state chartered bank, Peoples Security Bank and Trust Company will be subject to regulatory restrictions on the payment and amounts of dividends under the Pennsylvania Banking Code.

Further, the ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that Peoples' subsidiaries will be able to pay the dividends contemplated by the merger agreement or other dividends in the future or that Peoples will generate adequate cash flow to pay dividends in the future. Peoples' failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

Changes in interest rates could adversely impact our financial condition and results of operations.

Peoples' ability to make a profit, like that of most financial institutions, substantially depends upon its net interest income, which is the difference between the interest income earned on interest earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as deposits and borrowings. However, certain assets and liabilities may react differently to changes in market interest rates. Further, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while rates on other types of assets may lag behind. Additionally, some assets such as adjustable-rate mortgages have features, and rate caps, which restrict changes in their interest rates.

Factors such as inflation, recession, unemployment, money supply, global disorder such as that experienced as a result of the terrorist activity on September 11, 2001, instability in domestic and foreign financial markets, and other factors beyond our control, may affect interest rates. Changes in market interest rates will also affect the level of voluntary prepayments on loans and the receipt of payments on mortgage-backed securities, resulting in the receipt of proceeds that may have to be reinvested at a lower rate than the loan or mortgage-backed security being prepaid. Although Peoples pursues an asset-liability management strategy designed to control its risk from changes in market interest rates, changes in interest rates can still have a material adverse effect on our profitability.

If we have higher loan losses than we have allowed for, our earnings could materially decrease.

Our loan customers may not repay loans according to their terms, and the collateral securing the payment of loans may be insufficient to assure repayment. We may therefore experience significant credit losses which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the size of the allowance for loan losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our current allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio and adjustment may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase the level of our provision for loan losses. In addition, federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Material additions to the allowance would materially decrease our net income.

Table of Contents

Our results of operations may be materially and adversely affected by other-than-temporary impairment charges relating to our investment portfolio.

Numerous factors, including the lack of liquidity for re-sales of certain investment securities, the absence of reliable pricing information for investment securities, adverse changes in the business climate, adverse regulatory actions or unanticipated changes in the competitive environment, could have a negative effect on our investment portfolio in future periods. Investments are evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term other than temporary indicates that the prospects for a near term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the investment.

Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. If an impairment charge is significant enough, it could affect our ability to pay dividends, which could materially adversely affect us and our ability to pay dividends to shareholders. Significant impairment charges could also negatively impact our regulatory capital ratios and result in us not being classified as well-capitalized for regulatory purposes.

Post-merger integration and change of Peoples' historical business model may fail to achieve expected results.

The success of the transaction depends heavily on a smooth integration and post-merger operations of the combined Peoples Security Bank and Trust Company. Benefits of the transaction to shareholders may not be realized if the post-merger integration is not well executed or well received by each company's historical customers. This risk is exacerbated by a material change in the business processes that have been historically operated by Pensco to those of Peoples.

Peoples may fail to realize the cost savings it expects to achieve from the merger.

The success of the merger will depend, in part, on Peoples' ability to realize the estimated cost savings from combining the businesses of Peoples and Pensco. While we believe that the cost savings estimates are achievable, it is possible that the potential cost savings could be more difficult to achieve than we anticipate. Peoples' cost savings estimates also depend on its ability to combine the businesses of Peoples and Pensco in a manner that permits those cost savings to be realized. If our estimates are incorrect or we are unable to combine the two companies successfully, the anticipated cost savings may not be realized fully or at all, or may take longer to realize than expected.

Combining Peoples and Pensco into Peoples may be more difficult, costly or time-consuming than expected.

Peoples and Pensco have operated, and, until the completion of the merger, will continue to operate, independently. The integration process could result in the loss of key employees, the disruption of each company's ongoing business, inconsistencies in standards, controls, procedures and policies that adversely affect either company's ability to maintain relationships with clients and employees or achieve the anticipated benefits of the merger. As with any merger of financial institutions, there also may be disruptions that cause Peoples and Pensco to lose customers or cause customers to withdraw their deposits from Peoples or Pensco, or other unintended consequences that could have a material adverse effect on Peoples' results of operations or financial condition.

Table of Contents

We may incur significant costs to ensure compliance with corporate governance and accounting requirements.

We expect to incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC. We expect all of these applicable rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly.

We will be subject to more stringent capital and liquidity requirements in the future, which may adversely affect our net income and future growth.

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. U.S. implementation of Basel III would lead to significantly higher capital requirements and more restrictive leverage and liquidity ratios than those currently in place.

Future increases in minimum capital requirements could adversely affect our net income. Furthermore, our failure to comply with the minimum capital requirements could result in our regulators taking formal or informal actions against us which could restrict our future growth or operations.

We may elect or need to seek additional capital in the future, but that capital may not be available when needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In the future, we may elect or need to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on acceptable terms. If we cannot raise additional capital when needed, our ability to expand our operations through internal growth or acquisitions could be materially impaired.

Peoples' success will depend upon the ability of management to adapt to the consolidated company structure.

The business success of Peoples and Peoples Security Bank and Trust Company depends to a great extent upon the services of their directors and executive officers. Management's ability to operate Peoples profitably will require the acquisition of new knowledge and skills. In particular, if Peoples expands geographically or expands to provide non-banking services through the acquisition or formation of additional subsidiaries, current management may not have the necessary experience for successful operation in these new areas. There is no guarantee that management would be able to meet these new challenges or that Peoples would be able to retain new directors or personnel with the appropriate background and expertise.

Our financial performance may suffer if our information technology is unable to keep pace with growth or industry developments.

Effective and competitive delivery of our products and services is increasingly dependent upon information technology resources and processes, both those provided internally as well as those provided through third party vendors. In addition to better serving customers, the effective use of technology increases efficiency and enables us to reduce costs. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services to enhance customer convenience, as well as to create additional efficiencies in our operations. Many of our competitors have greater resources to invest in technological improvements. Additionally, as technology in the financial services industry changes and evolves, keeping pace becomes increasingly complex and expensive for us. There can be no assurance that we will be able to effectively implement new technology-driven products and services, which could reduce our ability to compete effectively.

Table of Contents

A failure in or a breach of our information systems or infrastructure, including as a result of cyber attacks, could disrupt our business, damage our reputation, and could have a material adverse effect on our business, financial condition and results of operations.

In the ordinary course of Peoples' business activities, including the ongoing maintenance of deposits, loan and other account relationships for Peoples' customers, receiving instructions and effecting transactions for those customers and other users of Peoples' products and services, we regularly collect, process, transmit and store significant amounts of confidential information regarding its customers, employees and others. In addition to confidential information regarding our customers, employees and others, Peoples and in some cases a third party, compile, process, transmit and store proprietary, non-public information concerning its own business, operations, plans and strategies.

Information security risks for Peoples and other financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties. We rely on digital technologies, computer and email systems, software, and networks to conduct secure processing, transmission and storage of confidential information. In addition, to access our products and services, our customers may use personal smart phones, tablet PCs and other mobile devices that are beyond our control systems. Our technologies, systems, networks and our customers' devices have been subject to, and are likely to continue to be the target of, cyber attacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorized use, loss or destruction of our or our customers' confidential information, or otherwise disrupt our or our customers' or other third parties' business operations. We believe that it is more likely than not that such attempted attacks may continue.

Although Peoples uses a variety of physical, procedural and technological safeguards to protect confidential information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of the information did occur, those events will be promptly detected and addressed. A failure in or breach of our operational or information security system, or those of a third-party service provider, as a result of cyber-attacks or information security breaches could have a material adverse affect on our business, damage our reputation, increase our costs and/or cause significant losses. Although Peoples believes that it currently has adequate information security procedures and other safeguards in place and it will continue to make it a priority to develop and enhance controls and processes designed to safeguard our information systems from attacks, damage or unauthorized access, as information security risks and cyber threats continue to evolve, Peoples may be required to expend substantial resources to further enhance its information security measures and/or to investigate and remediate any information security vulnerabilities.

Peoples common stock may not be listed on a national securities exchange, and the market for Peoples common stock may not be more active than the market for either Peoples or Pensco common stock.

Although we plan to apply to list Peoples common stock on The Nasdaq Stock Market, Inc. or the New York Stock Exchange (the "NYSE"), we cannot guarantee that our stock will be listed on Nasdaq, NYSE, or any other exchange. Accordingly, although the Peoples common stock offered in the merger will be freely transferable once you receive your Peoples stock certificate, Peoples common stock may not be listed on a national securities exchange. Instead, Peoples common stock may be traded in local over-the-counter markets and privately negotiated transactions. Although the common stock is quoted on the OTCQB marketplace, there is very limited trading in our shares. There is no assurance that an active public trading market for Peoples common stock will develop. Further, we cannot assure you that significant trading in Peoples common stock will take place for several years, if ever. Investors should consider their shares of Peoples common stock as a long-term investment because, among other things, they may not be able to promptly liquidate their investment at a reasonable price in the event of a personal financial emergency or otherwise.

Table of Contents

Future acquisitions by Peoples could dilute your ownership of Peoples and may cause Peoples to become more susceptible to adverse economic events.

Peoples may issue shares of its common stock in connection with future acquisitions and other investments, which would dilute your ownership interest in Peoples. While there is no assurance that these transactions will occur, or that they will occur on terms favorable to Peoples, future business acquisitions could be material to Peoples, and the degree of success achieved in acquiring and integrating these businesses into Peoples could have a material effect on the value of Peoples common stock. In addition, these acquisitions could require Peoples to expend substantial cash or other liquid assets or to incur debt, which could cause Peoples to become more susceptible to economic downturns and competitive pressures.

An economic downturn in northeastern Pennsylvania or southern New York or a general decline in economic conditions could adversely affect Peoples' financial results.

After the merger, Peoples' operations will be concentrated in northeastern Pennsylvania and southern New York. As a result of this geographic concentration, Peoples' financial results may correlate to the economic conditions in these areas. Deterioration in economic conditions in this market area, particularly in the industries on which this geographic areas depend, or a general decline in economic conditions may adversely affect the quality of the loan portfolio (including the level of non-performing assets, charge offs and provision expense) and the demand for products and services, and, accordingly, Peoples' results of operations. Inflation has some impact on Peoples' and Peoples Security Bank and Trust Company's operating costs. Peoples' future acquisitions could dilute your ownership of Peoples and may cause Peoples to become more susceptible to adverse economic events.

Strong competition within Peoples' market area may limit its growth and profitability.

Competition in the banking and financial services industry is intense. Peoples will compete actively with other northeastern Pennsylvania and southern New York financial institutions, many larger than Peoples, as well as with financial and non-financial institutions headquartered elsewhere. Commercial banks, savings banks, savings and loan associations, credit unions, and money market funds actively compete for deposits and loans. Such institutions, as well as consumer finance, insurance companies and brokerage firms, may be considered competitors with respect to one or more services they render. Peoples will likely be generally competitive with all institutions in its service areas with respect to interest rates paid on time and savings deposits, service charges on deposit accounts, interest rates charged on loans and fees for trust and investment advisory services. Many of the institutions with which Peoples competes have substantially greater resources and lending limits and may offer certain services that Peoples does not or cannot provide. Peoples' profitability depends upon Peoples' ability to successfully compete in its market area.

Peoples operates in a highly regulated environment and may be adversely affected by changes in laws and regulations.

Peoples and Peoples Security Bank and Trust Company will be subject to extensive regulation, supervision and examination by certain state and federal agencies including the Federal Deposit Insurance Corporation, as insurer of Peoples Security Bank and Trust Company's deposits, the Board of Governors of the Federal Reserve System, as regulator of the holding company, and the Pennsylvania Department of Banking and Securities, as regulator of Pennsylvania chartered banks. Such regulation and supervision govern the activities in which an institution and its holding company may engage and are intended primarily to ensure the safety and soundness of financial institutions. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on operations, the classification of assets and determination of the level of the allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on Peoples Security Bank and Trust Company's and Peoples' operations. There also are several federal and state statutes which

Table of Contents

regulate the obligation and liabilities of financial institutions pertaining to environmental issues. In addition to the potential for attachment of liability resulting from its own actions, a bank may be held liable under certain circumstances for the actions of its borrowers, or third parties, when such actions result in environmental problems on properties that collateralize loans held by the bank. Further, the liability has the potential to far exceed the original amount of a loan issued by the bank.

A Warning About Forward-Looking Information

This document, including information incorporated by reference in this document, contains forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, results of operations, and business of each of Peoples, Peoples Neighborhood Bank, Penseco, and Penn Security Bank and Trust Company. These include statements relating to revenues, cost savings, and anticipated benefits resulting from the merger. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, projects or similar words or expressions.

These forward-looking statements involve substantial risks and uncertainties. There are many factors that may cause actual results to differ materially from those contemplated by these forward-looking statements. See *Risk Factors*, beginning on page 25 of this document.

Because forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by these statements. We caution Peoples and Penseco shareholders not to place undue reliance on these statements. These statements speak only as of the date of this document or, if made in any document incorporated by reference, as of the date of that document.

All written or oral forward-looking statements attributable to Peoples or Penseco or any person acting on their behalf made after the date of this document are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Neither Peoples nor Penseco undertakes any obligation to release publicly any revisions to forward-looking statements to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events.

The Peoples Special Meeting of Shareholders

General

The Peoples special meeting of shareholders will be held at American Legion Post 357, 612 New York Avenue, Hallstead, Pennsylvania 18822, at 10:00 a.m., local time, on November 15, 2013.

Record Date and Shares Outstanding and Entitled to Vote

The record date for the Peoples special meeting of shareholders is September 27, 2013. On the record date, there were 3,087,406 shares issued and outstanding. Only shareholders of record at the close of business on the Peoples record date will be entitled to receive notice of and to vote at the special meeting.

Matters to be Considered at the Special Meeting

Holders of Peoples common stock will consider and vote upon:

Proposal 1 a proposal to approve and adopt the merger agreement which is attached as Annex A to this joint proxy statement/prospectus and incorporated herein by reference;

Proposal 2 a proposal to approve an amendment to Article 4 of Peoples Articles of Incorporation to increase the authorized number of common stock from 12,500,000 shares to 25,000,000 shares;

Table of Contents

Proposal 3 an advisory (non-binding) proposal to approve the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger;

Proposal 4 a proposal to adjourn or postpone the Peoples special meeting of shareholders, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the special meeting of shareholders to approve the merger agreement; and

any other matter that may properly come before the special meeting.

Quorum

Peoples shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast on the record date must be represented in person or by proxy at the Peoples special meeting of shareholders for a quorum to be present for purposes of voting on the merger agreement, the amendment to the articles of incorporation, the advisory (non-binding) golden parachute proposal, and the adjournment or postponement proposal, and any other matter to be considered at Peoples special meeting of shareholders.

Votes Required

Approve and Adopt the Merger Agreement. The approval and adoption of the merger agreement requires the affirmative vote, in person or by proxy, of the holders of at least a majority of the outstanding shares of Peoples common stock on the record date because the Peoples board of directors has unanimously approved the merger agreement.

Approval of the Amendment to the Articles of Incorporation. The affirmative vote of a majority of the shares voted at the special meeting of shareholders is required to approve and adopt the amendment to Peoples articles of incorporation.

Advisory (Non-binding) Vote Regarding Golden Parachute Compensation. The affirmative vote of a majority of the votes cast by the holders of our common stock entitled to vote on that matter at a shareholders meeting at which a quorum is present is required to approve on an advisory (non-binding) basis, the golden parachute compensation payable to the named executive officers of Peoples and Pensco in connection with the merger.

Discretionary Authority to Adjourn or Postpone the Special Meeting. The affirmative vote of a majority of the shares voted at the Peoples special meeting of shareholders is required to approve the adjournment or postponement of the special meeting to solicit additional proxies.

Each shareholder of Peoples on the record date will be entitled to one vote for each share held of record at the Peoples special meeting of shareholders. The directors and executive officers of Peoples have agreed to vote all shares of Peoples common stock that they own on the record date in favor of the approval and adoption of the merger agreement. On the record date, directors and executive officers of Peoples owned approximately 222,791 shares of Peoples common stock, or approximately 7.21% of the then outstanding shares of Peoples common stock.

Voting

The Peoples board of directors is soliciting proxies from the Peoples shareholders. This will give Peoples shareholders an opportunity to vote at the Peoples special meeting of shareholders. When you deliver a valid proxy, the shares represented by that proxy will be voted by a named agent in accordance with your instructions.

If a Peoples shareholder does not vote by proxy or by attending the Peoples special meeting of shareholders and voting in person, it will have the same effect as voting against the merger.

Table of Contents

If a Peoples shareholder votes by proxy card but makes no specification on the proxy card regarding the proposals, the agent will vote all of the shareholder's shares FOR approval and adoption of the merger agreement and the merger and the adjournment or postponement proposal.

Revocation of Proxies

Any Peoples shareholder may revoke a proxy at any time before or at the Peoples special meeting in one or more of the following ways:

1. Delivering a written notice of revocation bearing a later date than the proxy at any time prior to the vote at the special meeting of shareholders to the Secretary of Peoples;
 2. Submitting a later-dated proxy prior to the vote at the special meeting of shareholders; or
 3. Attending the special meeting of shareholders and voting in person after giving written notice to the Secretary of Peoples.
- A Peoples shareholder should send any written notice of revocation or subsequent proxy to:

Peoples Financial Services Corp.

Attention: Corporate Secretary

82 Franklin Avenue

Hallstead, PA 18822

You also may hand deliver the notice of revocation or subsequent proxy to the Corporate Secretary, before the taking of the vote at the special meeting of shareholders. Attendance at the special meeting of shareholders will not by itself constitute a revocation or proxy.

Dissenters' Rights

Under Section 1930 and Chapter 15, Subchapter D, of the Pennsylvania Business Corporation Law of 1988, as amended, holders of Peoples common stock who properly file with Peoples a written notice of intention to dissent will have the right to obtain a cash payment for the statutorily determined fair value of their shares (excluding any element of value arising in anticipation of the merger) in the event that the merger is completed. In order to exercise those rights, Peoples shareholders must comply with the procedural requirements of Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law. The statutorily determined fair value cannot be predicted and could be more or less than the value of the merger consideration. Failure to take any of the steps required under Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law on a timely basis may result in the loss of dissenters' rights. The provisions relating to dissenters' rights under Pennsylvania Business Corporation Law are attached to this joint proxy statement/prospectus as Annex D. See Proposal The Merger Rights of Dissenting Shareholders .

Solicitation of Proxies

Peoples will bear the cost of the solicitation of proxies from its own shareholders, but Peoples and Pensoco will equally share the cost of printing and mailing this joint proxy statement/prospectus. In addition to solicitation by mail, the directors, officers and employees of Peoples and its subsidiaries may solicit proxies from Peoples shareholders by telephone, electronically, or in person without compensation other than reimbursement for their actual expenses. Peoples also will make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons. Peoples will reimburse those custodians, nominees, and fiduciaries for their reasonable out-of-pocket expenses in connection with forwarding solicitation materials. In addition, Peoples has also made arrangements with Regan & Associates, Inc., New York, New York, to assist in soliciting proxies and has agreed to pay them \$8,000 for these services.

Table of Contents

The Penseco Special Meeting of Shareholders

General

The Penseco special meeting of shareholders will be held at the Hilton Scranton and Conference Center, 100 Adams Avenue, Scranton, Pennsylvania 18503, at 2:00 p.m., local time, on November 21, 2013.

Record Date and Shares Outstanding and Entitled to Vote

The record date for the Penseco special meeting of shareholders is September 27, 2013. On the record date, there were 3,285,145 shares issued and outstanding. Only shareholders of record at the close of business on the Penseco record date will be entitled to receive notice of and to vote at their special meeting.

Matters to be Considered at the Special Meeting

Holders of Penseco common stock will consider and vote upon:

Proposal 1 a proposal to approve and adopt the merger agreement which is attached as Annex A to this joint proxy statement/prospectus and incorporated herein by reference;

Proposal 2 a proposal to approve, on an advisory basis, the compensation of Penseco's named executive officers that is based on or related to the proposed merger; and

Proposal 3 a proposal to adjourn the special meeting, if necessary, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the proposal to approve and adopt the merger agreement.

Quorum

The holders of a majority of the shares of Penseco common stock outstanding and entitled to vote as of the record date must be present at the Penseco special meeting, either in person or by proxy, for a quorum to be present for purposes of voting on the merger agreement, the adjournment or postponement proposal, and any other matter to be considered at the Penseco special meeting.

Votes Required

Approve and Adopt the Merger Agreement. In accordance with Penseco's articles of incorporation, the approval and adoption of the merger agreement requires the affirmative vote of the holders of at least 75% of the shares Penseco common stock outstanding on the record date.

Advisory (Non-binding) Vote Regarding Golden Parachute Compensation. In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve, on an advisory basis, the compensation of Penseco's named executive officers that is based on or related to the proposed merger.

Discretionary Authority to Adjourn or Postpone the Special Meeting. In accordance with Penseco's bylaws, the affirmative vote of a majority of Penseco shares represented, in person or by proxy, at the special meeting is required to approve the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

Each holder of shares of Penseco common stock outstanding on the record date will be entitled to one vote for each share held of record at the Penseco special meeting of shareholders. The directors and executive officers of Penseco have agreed to vote all shares of Penseco common stock that they own on the record date in favor of the approval and adoption of the merger agreement. On the record date, directors and executive officers of Penseco beneficially owned approximately 413,701 shares of Penseco common stock, or approximately 12.6% of the outstanding shares of Penseco common stock.

Table of Contents

Ownership of Shares; Attending the Meeting

You may own shares of Penseco in one of the following ways:

Directly, in your name as the shareholder of record;

Indirectly, through a broker, bank or other holder of record in street name ; or

Indirectly, through the Penn Security Bank and Trust Company Employee Stock Ownership Plan, or ESOP.

If you hold your shares in certificate form and not through a bank, brokerage firm or other nominee, you may vote your shares in one of the following ways:

By Mail. If you choose to vote by mail, complete the enclosed proxy, date and sign it, and return it in the postage-paid envelope provided.

In Person. If you choose to vote in person, come to the annual meeting and cast your vote. If you attend the meeting, you may vote your shares in person even if you have previously submitted a proxy.

Telephonic voting. If you choose to vote by telephone, call toll-free (866) 702-2540 in the United States from any touch-tone telephone and follow the instructions. Have your proxy card available when you call, and use the company number and account number shown on your proxy card.

Internet Voting. If you choose internet voting, visit www.rtcoproxy.com/pfns and follow the on-screen instructions. Have your proxy card available when you access the web page, and use the company number and account number shown on your proxy card.

You may submit your proxy by telephone or via internet until 3:00 AM the day before the meeting.

If you hold your shares in street name, your broker, bank or other holder of record is sending these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote on your behalf by filling out a voting instruction form that accompanies your proxy materials. Your broker, bank or other holder of record may allow you to provide voting instructions by telephone or by the Internet. Please see the voting instruction form provided by your broker, bank or other holder of record that accompanies this proxy statement. If you hold your shares in street name, you will need proof of ownership to be admitted to the meeting. (For example, a recent brokerage statement or letter from your bank or broker.) If you want to vote your shares of Penseco common stock held in street name in person at the special meeting, you must obtain a written proxy in your name from the broker, bank or other holder of record of your shares.

If you hold your shares in an ESOP account, you will receive a single voting instruction card for the ESOP that reflects all shares you may vote under the ESOP. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee will not vote shares for which no voting instructions are received.

Voting

The Penseco board of directors is soliciting proxies to request that you allow your shares of Penseco common stock to be represented at the special meeting by the persons named on the enclosed Penseco proxy card. All shares of Penseco common stock represented at the special meeting by properly executed and dated proxy cards will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by our board of directors.

Table of Contents

The Pensco board of directors recommends that you vote:

FOR the proposal to approve and adopt the merger agreement;

FOR the proposal to approve, on an advisory basis, the compensation of Pensco's named executive officers that is based on or related to the proposed merger; and

FOR the proposal to adjourn the special meeting, if necessary, to solicit additional proxies.

If any matters incident to the conduct of the meeting and not described in this proxy statement are properly presented at the special meeting, the persons named on the proxy card will use their judgment to determine how to vote your shares.

If you hold your shares in street name, it is critical that you instruct your bank or broker how to vote. If you hold your shares in street name and you do not instruct your bank or broker how to vote, your bank or broker will not be permitted to vote your shares on any matter related to the merger or executive compensation or on other non-discretionary matters, and may elect not to vote your shares on other matters. A broker non-vote occurs when a broker submits a proxy that does not indicate a vote for some of the proposals because the beneficial owners have not instructed the broker on how to vote on such proposals.

Broker non-votes are considered present, and as a result, will have the same effect as a vote against the merger proposal and each proposal for which the affirmative vote of a majority of shares represented at the special meeting is required.

If you return a valid proxy or attend the meeting in person, we will count your shares for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes, if any, also will be counted for purposes of determining the existence of a quorum.

Abstentions are considered to be present and, as a result, will have the same effect as a vote against the merger proposal and each proposal for which the affirmative vote of a majority of shares represented at the special meeting is required.

Revocation of Proxies

Any Pensco shareholder may revoke a proxy at any time before or at the Pensco special meeting in one or more of the following ways:

1. Delivering a written notice of revocation bearing a later date than the proxy at any time prior to the vote at the special meeting of shareholders to the Secretary of Pensco;
2. Submitting a later-dated proxy prior to the vote at the special meeting of shareholders; or
3. Attending the special meeting of shareholders and voting in person after giving written notice to the Secretary of Pensco.

A Pensco shareholder should send any written notice of revocation or subsequent proxy to:

Pensco Financial Services Corporation

Attention: Corporate Secretary

150 North Washington Avenue

Scranton, PA 18503

You also may hand deliver the notice of revocation or subsequent proxy to the Secretary before the taking of the vote at the special meeting of shareholders. Attendance at the special meeting of shareholders will not by itself constitute a revocation or proxy.

Table of Contents**Dissenters' Rights**

Under Section 1930 and Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law of 1988, as amended, holders of Penseco common stock who properly file with Penseco a written notice of intention to dissent will have the right to obtain a cash payment for the statutorily determined fair value of their shares (excluding any element of value arising in anticipation of the merger) in the event that the merger is completed. In order to exercise those rights, Penseco shareholders must comply with the procedural requirements of Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law. The statutorily determined fair value cannot be predicted and could be more or less than the value of the merger consideration. Failure to take any of the steps required under Chapter 15, Subchapter D of the Pennsylvania Business Corporation Law on a timely basis may result in the loss of dissenters' rights. The provisions relating to dissenters' rights under Pennsylvania Business Corporation Law are attached to this joint proxy statement/prospectus as Annex F. See Proposal The Merger Rights of Dissenting Shareholders .

Solicitation of Proxies

Penseco will bear the cost of the solicitation of proxies from its own shareholders, but Peoples and Penseco will equally share the cost of printing and mailing this joint proxy statement/prospectus. In addition to solicitation by mail, the directors, officers, and employees of Penseco and Peoples and their subsidiaries may solicit proxies from Penseco shareholders by telephone, electronically, or in person without compensation other than reimbursement for their actual expenses. Penseco also will make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons. Penseco will reimburse those custodians, nominees, and fiduciaries for their reasonable out-of-pocket expenses in connection with forwarding solicitation materials. In addition, Penseco has also made arrangements with Regan & Associates, Inc., New York, New York, to assist in soliciting proxies and has agreed to pay them \$27,500 for these services.

Proposal:**The Merger**

The following information describes the material terms and provisions of the merger. This description is not complete. We qualify this discussion in its entirety by reference to the merger agreement which we incorporate by reference in this joint proxy statement/prospectus. A copy of the merger agreement is attached to this document as Annex A to provide information regarding the terms of the proposed merger. Except for its status as the contractual document between the parties with respect to the merger described in the merger agreement, it is not intended to provide factual information about the parties. The representations and warranties contained in the merger agreement were made only for purposes of the merger agreement and as of specific dates, were solely for the benefit of the parties to the merger agreement, and may be subject to limitations agreed to by the contracting parties, including being qualified by disclosures between the parties. These representations and warranties may have been made for the purposes of allocating contractual risk between the parties to the agreement instead of establishing these matters as facts and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Accordingly, they should not be relied on by investors as statements of factual information. We urge you to read the full text of the merger agreement carefully.

General

On June 28, 2013, Peoples and Penseco jointly announced the execution of the merger agreement. Pursuant to the merger agreement, Penseco will merge with and into Peoples. After the merger, but no earlier than the next business day, Penn Security Bank and Trust Company will merge with and into Peoples Neighborhood Bank under the name Peoples Security Bank and Trust Company . The mergers are expected to be completed during late 2013. On September 17, 2013, Peoples and Penseco entered into an Amendment No. 1 to the Agreement and Plan of Merger which would permit Peoples to pursue a listing of its common stock on either The Nasdaq Stock Market, Inc. or on the New York Stock Exchange following the merger.

Table of Contents

In the merger, Penseco shareholders will receive 1.3636 shares of Peoples common stock for each share of Penseco common stock they hold on the effective time of the merger.

Peoples will not issue fractional shares of common stock to Penseco shareholders pursuant to this merger; consequently, Penseco shareholders will receive cash in lieu of any fractional shares they would have otherwise received according to the terms of the merger agreement.

The approval and adoption of the merger agreement requires the affirmative vote, in person or by proxy, of the holders of at least a majority of the outstanding shares entitled to vote at the Peoples special meeting of shareholders and requires the affirmative vote, in person or by proxy, of at least 75% of the outstanding shares entitled to vote at the Penseco special meeting of shareholders.

Background of the Merger

The boards of directors of Peoples and Penseco evaluate their respective businesses and strategic opportunities on an ongoing basis. The executive committee of Penseco's board of directors monitors a group of approximately twenty potential transaction partners to evaluate potential business combinations from time to time. As part of these ongoing efforts, the executive committee of Penseco's board of directors met on February 27, 2013, to discuss various matters, including potential transactions with Peoples and one other party. Based on the interest at the meeting, the Penseco executive committee authorized Craig W. Best, President and Chief Executive Officer of Penseco, to engage Cedar Hill Advisors, LLC to provide financial advisory services to Penseco, including with respect to a potential transaction with Peoples.

On February 28, 2013, Mr. Best presented a financial model, prepared with the assistance of Cedar Hill, to the Penseco executive committee. On the basis of the financial model and, more particularly, on the potential strategic benefits of a business combination with Peoples, including the combined company's increased size and scale, the geographic complement of the Peoples and Penseco branch networks, including the ability of Penseco to accelerate expansion into the Marcellus Shale region, the relative ownership of the combined company, the ability of Penseco shareholders to continue to participate in the growth of the combined company, and the potential effects on its employees, customers and communities, the Penseco executive committee determined to pursue a business combination with Peoples. To that end, the Penseco executive committee authorized Mr. Best to approach William Aubrey II, Chairman of the board of directors of Peoples, regarding the potential business combination and, on February 28, 2013, Mr. Best met with Mr. Aubrey to discuss the potential transaction.

Following the meeting, through March 18, 2013, Mr. Best and Mr. Aubrey had a number of exploratory phone calls to discuss the potential transaction, Peoples' interest in the potential transaction, and future actions. On March 15, 2013, Penseco's executive committee met to discuss management's recommendations regarding certain terms of the potential transaction, including a proposed exchange ratio, and authorized Mr. Best to discuss the terms with Peoples.

On March 18, 2013, Mr. Best met with Mr. Aubrey, Alan W. Dakey, President and Chief Executive Officer of Peoples, and Scott A. Seasock, Senior Vice President and Chief Financial Officer of Peoples, to discuss the terms approved by the Penseco executive committee and other general parameters of a potential transaction. Mr. Best provided materials regarding the proposed transaction to be shared with Peoples board of directors. Mr. Best and Mr. Aubrey had a follow-up phone call on March 19, 2013.

Penseco's board of directors met on March 19, 2013, to discuss the potential transaction, management's recommendations, the board's fiduciary duties in connection with the potential transaction, and the proposed next steps. Management made a presentation to the board regarding financials and general terms of the transaction. At the meeting, Penseco's board of directors designated an independent committee of the board of directors, comprised of directors Cesare, Hume, Keisling and Naismith, to review, consider and evaluate any proposals that may be made with respect to a possible business combination involving Penseco, including the potential transaction with Peoples, and to make recommendations to the board of directors.

Table of Contents

On March 20, 2013, Messrs. Best, Dakey and Seasock had a conference call to review the materials provided by Mr. Best at their March 18 meeting, including the assumptions used and other matters. Messrs. Best and Dakey had a subsequent phone call to discuss other transaction matters, including professional advisors.

On March 22, 2013, Penseco's independent committee met to discuss the potential transaction and heard Mr. Best's report of his meeting and discussions with Peoples management from March 18 to March 20.

On March 26, 2013, Mr. Aubrey made a presentation to the Peoples board of directors about the proposed transaction with Penseco, after which he had a telephone call with Mr. Best to discuss Peoples' level of interest in pursuing the transaction.

Mr. Best sent Mr. Aubrey a formal confidentiality agreement and proposed transaction timeline on March 27, 2013, and sent confidentiality agreements and requests for proposals (RFPs) to potential professional and financial advisors.

On March 28, 2013, Mr. Best and Mr. Aubrey met to discuss and review a draft non-binding indication of interest and the proposed timeline for the transaction and on March 29, 2013, Penseco's independent committee met with Mr. Best to discuss the same.

At Peoples' regular board meeting on March 29, 2013, the board discussed the proposed transaction with Penseco, including the draft non-binding indication of interest and proposed timeline. A merger committee was formed to evaluate the potential transaction composed of Earle Wootton, Chairman of the committee, directors Kukuchka, Stover, and Dakey and Mr. Seasock as management's representative. At the reorganizational meeting of the board of directors on April 3, 2013, the merger committee became a standing committee of the board and was renamed the Strategic Planning Committee. The committee members remained the same members as selected at the March 29 meeting.

Earle Wootton, Chairman of Peoples' strategic planning committee, met with Mr. Best on April 4, 2013, to discuss a planned presentation to the committee. Mr. Best made the presentation to the committee, comprised of directors Wootton, Kukuchka, Stover and Dakey, on April 5, 2013. The presentation included, among other things, a review of the preliminary *pro forma* financials, the proposed exchange ratio of 1.3636, and proposed timeline.

Also on April 5, 2013, the Penseco independent committee met to discuss the potential transaction. Mr. Best reported to the committee on his earlier meeting with Peoples' strategic planning committee, as well as the responses received from advisors with respect to the RFPs sent out on March 27.

On April 10, 2013, Mr. Best met with Joseph T. Wright, a director of Peoples, to review the presentation made to Peoples' strategic planning committee on April 5.

Penseco's board of directors held its regular meeting on April 16, 2013 and discussed, among other matters, the financial metrics of the transaction and compared them to criteria previously identified by the board. The expected benefits for Penseco's shareholders, customers, employees and communities as well as the potential strategic benefits of the transaction were also discussed.

April 30, 2013, Mr. Best and Mr. Seasock met to discuss potential strategic benefits of the transaction.

Penseco's independent committee met May 2, 2013, to discuss the potential transaction, including the timeline, projected advisory costs and estimated cost saves that would result from the potential merger.

On April 12, 2013, Peoples engaged Boenning & Scattergood as its financial advisor. On May 3, 2013, Boenning & Scattergood made a presentation to the strategic planning committee which included an overview of

Table of Contents

Penseco, summary of the proposed terms, a contribution analysis, transaction considerations and observations. Later that day, Mr. Aubrey contacted Mr. Best to discuss the outcome of the strategic planning committee meeting. Mr. Aubrey indicated that Peoples would be interested in further pursuing the transaction if Penseco would be able to validate Penseco's estimated cost saves and address certain governance matters.

Also, at the May 3, 2013 Peoples board of directors' meeting, the board of directors reviewed the community banking industry, community bank capital markets, and strategic alternatives. These strategic alternatives included remaining independent, selective acquisitions of smaller banks or banks in existing or adjacent markets, mergers of equals with a bank of similar size that has compatible markets and a similar culture and operating philosophy (thereby taking a "best of breed" approach to personnel and operations to enhance growth, cost savings and other synergies amongst companies), or to sell to a larger competitor in the market or a bank looking to expand into Peoples' market. A standalone analysis was undertaken and reviewed including, among other things, growth, profitability, portfolio composition, asset quality, market performance, opportunities going forward, financial projections, discounted dividend analysis and standalone opportunities and challenges. Selective acquisition opportunities were also reviewed, including acquisition candidates and potential acquisition branch locations. Preliminary analysis of various prospective target acquisition candidates was reviewed including information in connection with branch acquisitions. The opportunities and challenges both historical/current and prospective of this alternative were reviewed.

A merger of equals analysis and review was also undertaken, including the business rationale for such an approach including enhanced growth opportunities, improved profitability, revenue enhancements, expanded and enhanced management team, greater liquidity for shareholders, and preservation of local identity. The challenges associated with a merger of equals were also discussed. Structuring of merger of equals was discussed. Various potential prospective merger of equals candidates were discussed. Various contribution analyses of merger of equals candidates were undertaken and reviewed. The opportunities and challenges of various potential merger of equals combinations were reviewed and discussed.

The potential strategic alternative of a sale of the company was analyzed, reviewed and discussed including current valuations, current activity, shareholder liquidity, potential returns, and business opportunity issues. Various comparables were reviewed and analyzed. The opportunities and challenges associated with a sale of the company were reviewed and discussed.

The board of directors discussed and reviewed quantification of each of these opportunities and alternatives and Peoples' prior history, current and future prospects in connection with each alternative, and the probability of successfully implementing such alternatives. The board of directors concluded unanimously that pursuing a strategy of prudently growing the company, enhancing shareholder value, improving liquidity, improving future business prospects, broadening and strengthening management, maintaining cultural, philosophical and community identity were in the best interests of Peoples and its constituencies, including the shareholders. The board of directors believed that when comparing these alternatives that the potential transaction with Penseco may meet these objectives and goals subject to continued investigation, analysis, due diligence, development of terms agreement negotiation, validation of estimated cost saves and the successful resolution of certain governance matters.

On May 6, 2013, Mr. Best provided an update to Penseco's independent committee, including with respect to Penseco's management efforts to validate the estimated cost saves. Committee members discussed governance matters with Mr. Best.

Penseco held its annual meeting of shareholders and board reorganization meeting on May 7, 2013. At the board meeting, Mr. Best updated the Board on the progress of the transaction with Peoples and a proposal, previously discussed with the independent committee, regarding the size and composition of the board of directors of the combined company, the classification of directors, Peoples mandatory retirement bylaw applicable to directors, and a proposed bylaw amendment.

Table of Contents

On May 10, 2013, the Penseco independent committee approved a proposal with respect to the composition of the board of directors of the combined company and authorized and directed Mr. Best to present the proposal to Peoples. Mr. Best then presented the proposal to Mr. Aubrey.

On May 15 and 16, 2013, Mr. Best spoke with Messrs. Wootton and Aubrey to discuss various aspects of the potential transaction. On May 17, 2013, Peoples received a draft cost-savings analysis from Cedar Hill Advisors, which had been prepared by Cedar Hill Advisors in collaboration with Boenning & Scattergood.

Penseco's independent committee met on May 17, 2013 to discuss the potential transaction's progress, proposed board structure, the identified cost saves, a communication plan proposal and an updated timeline.

On May 20, 2013, Mr. Best met with Mr. Hull of Boenning & Scattergood regarding potential cost savings as a result of a transaction between Peoples and Penseco.

Peoples engaged Bybel Rutledge on May 20, 2013, to serve as special legal counsel regarding the potential transaction with Penseco.

Peoples' management and Boenning & Scattergood met with Penseco's management and Cedar Hill Advisors to discuss certain financial and cost-savings considerations relating to a potential transaction with Penseco on May 24, 2013.

Penseco's independent committee met on May 25, 2013 to review the information discussed at the May 24th meeting between Peoples management and Penseco's management and financial advisors.

On May 28, 2013, Mr. Hull presented the cost-savings analysis to Peoples' board of directors. The board of directors reviewed, discussed, and considered the analysis.

Penseco's board of directors met on May 28, 2013. At the meeting, members of Penseco's management reviewed the progress of the potential transaction with Peoples. Among other matters, the board discussed potential risks associated with the transaction, particularly the risk that the combined company may not achieve potential revenue enhancements, cost savings or earnings, the risk that the per share market price of Peoples common stock may decline, and the risk that the liquidity of the Peoples common stock following the proposed transaction may not be significantly better than the current liquidity of the Penseco common stock. The board also discussed potential strategies to address those risks, the validated cost savings, the financial metrics of the transaction, the proposed timeline, a draft of a non-binding letter of interest and a due diligence plan and schedule.

On May 28, 2013, Messrs. Dakey and Best met to discuss various matters relating to the proposed transaction, including personnel and operations.

Peoples' strategic planning committee met with Peoples' management to discuss cost-savings and current status of negotiations with Penseco on May 30, 2013.

On May 31, 2013, Peoples board of directors met to discuss the strategic opportunity presented by the Penseco discussions and the non-binding indication of interest received from Penseco. Mr. Hull from Boenning & Scattergood and Mr. Bybel from Bybel Rutledge were present. The chairman of the strategic planning committee presented the timeline and status of discussions with Penseco. Mr. Hull presented the potential terms and issues regarding a transaction with Penseco including pricing, comparable transactions and present value calculations. Mr. Bybel discussed the fiduciary duties of the board of directors under Pennsylvania law. The board authorized the chairman of the strategic planning committee to enter into the non-binding indication of interest with Penseco. The board of directors also reviewed, discussed and revisited their prior conversations, considerations and analysis regarding strategic alternatives previously reviewed in detail on

Table of Contents

May 3, 2013, and concluded that the proposed transaction with Penseco could be in the best interests of its shareholders and constituents as of this time and warranted moving to the next step of due diligence.

The board of directors of Penseco met at a special meeting held May 31, 2013, to discuss the proposed transaction with Peoples and authorized the execution of a non-binding indication of interest with Peoples. The parties executed the non-binding indication of interest later that day.

Between May 31, 2013 and June 28, 2013, each of the parties and its respective advisors engaged in various due diligence investigations of the other party, both in person and through a secure website.

On June 3, 2013, Penseco engaged Pepper Hamilton LLP as legal counsel with respect to the proposed transaction and, on June 6, 2013, engaged Griffin Financial Group, LLC to provide financial advisory services in connection with the proposed transaction. On June 7, 2013, Penseco's independent committee met to discuss the potential transaction, including the plans for a definitive merger agreement, transaction expenses and next steps.

On June 12, 2013, Bybel Rutledge sent the initial draft of the merger agreement reflecting the terms of the executed non-binding indication of interest for all parties to review. On June 19, 2013, Pepper Hamilton responded with comments and proposed revisions on behalf of its client, Penseco, to the June 12, 2013 draft of the merger agreement. The Pepper Hamilton draft proposed changes to the definition of Acquisition Proposal and Material Adverse Effect; the addition of a Superior Acquisition Proposal as a mechanism to terminate the merger agreement; removal of the mechanism for continuing service on the board of directors by the initial Penseco and Peoples board of directors; placing the current directors into agreed upon respective classes; changes to the exchange procedure for Penseco shareholders to exchange their shares of Penseco common stock for Peoples common stock; changes to the representations and warranties; changes to the no shop provision where the board of directors of Penseco agreed not to accept any other bids except in certain circumstances to fulfill their fiduciary duties; removal of the post-closing covenant to continue the payment of \$.31 per share dividend to Peoples shareholders after the effective time of the transaction; a reduction in the maximum percentage of Penseco dissenting shares that would serve as a condition to closing from ten percent to one percent; and other less significant edits.

After consultation with Peoples, Bybel Rutledge circulated a revised draft on June 25, 2013. This draft included certain changes to the definition of Material Adverse Effect, revisions to the composition of the board of directors as well as the mechanism for continuing service after closing. The revisions included changes in order to comply with corporate governance listing standards for nominating committees. Select changes were made to the representations and warranties, specifically the representations regarding tax, ERISA, and compliance with law. The covenants were also revised to allow for regularly scheduled bonus payments for employees. Select revisions were made to the no shop provision as requested by Penseco to ensure compliance with the Penseco board of director's fiduciary duties. In addition, changes to the termination section were revised regarding certain situations when expenses would be reimbursed by the terminating party to the non-terminating party primarily the elimination of a termination fee if the Penseco shareholders failed to approve the transaction by the requisite percentage. A section was also added to the termination provision to allow the parties to terminate the merger agreement based upon a decrease in the stock price of the other party and a decrease in the stock price of a peer group of financial institutions.

Pepper Hamilton, after consultation with Penseco, circulated comments on the June 25, 2013 draft on June 26, 2013 requesting revisions to the representations regarding financial statements and regulatory reports and to the timing of the bank merger following the merger of the holding company, as well as other edits.

After consultation with Peoples, Bybel Rutledge circulated a revised draft on June 26, 2013 adding the ability for the parties to issue annual and retention bonuses and reducing the amount of dissenting shares of Penseco that could dissent as a condition to close. In addition, the requested change regarding the timing of the bank merger was made.

Table of Contents

Pepper Hamilton responded on behalf of Pensco on June 27, 2013, requesting an increase in the percentage of a company that would be purchased that would constitute an Acquisition Proposal and other edits. In addition, conference calls were held to discuss the corporate governance listing rules regarding the nominating committees for selecting directors.

After consultation with Peoples, Bybel Rutledge circulated a revised draft on June 27, 2013 making the requested changes to the definition of Acquisition Proposal, revising the mechanism for selecting directors after closing to comply with the corporate governance listing rules regarding nominating committees for selecting directors. In addition, revisions were made the termination provision that only Pensco could terminate the agreement for a reduction in stock price of Peoples and a reduction in the stock price of a peer group of financial institutions.

Bybel Rutledge circulated a revised merger agreement with non-material changes on June 27, 2013 which would be the version of the merger agreement that was executed. Pensco's independent committee continued to meet regularly and direct the efforts of management and Pensco's advisors throughout this period.

Pensco's board of directors held a special meeting on June 18, 2013, and received reports from Pensco's management and legal and financial advisors with respect to the proposed transaction, results of due diligence investigations, a preliminary analysis relating to Griffin's fairness opinion, duties and responsibilities of the board and the draft merger agreement.

On June 19, 2013, Messrs. Best and Dakey met to discuss management structure and integration. Later, Messrs. Best, Wootton and Hull met to discuss the status, due diligence results, employee matters and issues relating to the draft merger agreement.

Peoples' strategic planning committee met with other members of the Peoples board on June 25, 2013 to consider and review the current status of the negotiations with Pensco and due diligence findings. Mr. Hull reviewed the Boenning and Scattergood presentation with the board of directors. Mr. Bybel reviewed with the board of directors the draft merger agreement and all schedules, exhibits, and annexes thereto and their duties under law.

On June 28, 2013, Peoples' board of directors met to consider the merger agreement and the schedules, exhibits, and annexes thereto. Mr. Hull reviewed the Boenning and Scattergood presentation with the board of directors. Mr. Bybel reviewed with the board of directors the merger agreement and all schedules, exhibits, and annexes thereto and their duties under law. After presentations by management and Boenning & Scattergood and receipt of a written fairness opinion from Boenning & Scattergood, the board of directors discussed, considered, approved and adopted the terms of the transaction and the merger agreement.

That same day, at a special meeting of the Pensco board of directors, the board heard the reports of Pensco's management regarding the proposed transaction, Griffin with respect to its fairness opinion, Pepper Hamilton with respect to the terms of the merger agreement, and the independent committee with respect to its recommendation regarding the proposed transaction. After extensive discussion among the members of the board, the Pensco board of directors approved and adopted the terms of the transaction and the merger agreement.

Following the Peoples and Pensco board meetings, the parties executed the merger agreement and announced the transaction on June 28, 2013.

Table of Contents

Certain Non-Public, Unaudited, Forward-Looking Information Exchanged by Peoples and Penseco

In the course of their due diligence examinations, Peoples and Penseco each provided copies of certain internal financial projections for future periods prepared by senior management to the other and to Boenning & Scattergood, Inc. and Griffin Financial Group, LLC, respectively to assist them in preparing their analyses of the transaction.

Peoples, Boenning, and Griffin obtained from Penseco a copy of Penseco's internal 2013 operating budget, which included forecasted operating results for 2013. Penseco and Boenning obtained from Peoples a copy of Peoples' internal 2013 operating budget, dated December 2012, which included forecasted operating results for 2013, Peoples' strategic plan, dated October 2012, and risk assessment and capital plan, dated September 2012. Further, Griffin obtained additional projections for Peoples and Penseco prepared by the Penseco senior management team in conjunction with Cedar Hill Advisors.

Penseco's internal 2013 operating budget provided to Peoples, which had been prepared in January 2013 and updated to reflect 2013 actual results through April 30, 2013, included the following projections for the year ending December 31, 2013: net interest income of approximately \$30.6 million, net income of approximately \$10.4 million and earnings per share of approximately \$3.18.

Peoples' internal 2013 operating budget provided to Penseco included the following projections for the year ending December 31, 2013: net interest income of approximately \$24.4 million, net income of approximately \$9.3 million and earnings per share of approximately \$3.00.

The foregoing projections are provided for the sole purpose of describing certain projections that were exchanged between the parties. Actual results for Peoples, Penseco or the combined company could vary significantly from the projections.

The referenced budgets and projections involve significant assumptions regarding, among other things, interest rates, projected loan, deposit and asset growth, dividends, asset quality and allowance for loan losses, loan-to-deposit ratios and return on assets which were based on historical data, trends and interim results along with any known information that would potentially cause future results to differ from prior results. Additional significant assumptions underlying the projections included amounts necessary to estimate the impact of acquisition accounting, as well as anticipated costs savings. Because the projections were based on numerous variables and assumptions, including factors related to general economic and competitive conditions, which are inherently uncertain; accordingly, actual results could vary significantly from those set forth in the projections.

The senior management of both companies developed their 2013 operating budgets prior to and without regard for the proposed merger, and Penseco and Peoples do not publicly disclose internal management projections of the type used by Boenning and Griffin in connection with their review of the merger, or any other earnings guidance or financial projections. As a result, such projections were not prepared with a view towards public disclosure.

Further, such projections are not intended to comply with the guidelines for financial forecasts established by the American Institute of Certified Public Accountants or any other established guidelines regarding projections or forecasts.

In addition, they were not reviewed or compiled by any accounting firm or the financial advisors of Peoples or Penseco, either in connection with their preparation or for the purpose of providing any opinion with respect thereto. The reports of the independent registered public accounting firms of Peoples and Penseco included in or incorporated by reference into this document relate solely to the historical financial information of the respective companies as referred to therein. Such reports do not extend to the above discussion of the Peoples and Penseco projections and should not be read as doing so.

Table of Contents

Peoples Reasons for the Merger

Peoples board of directors considered the terms of the merger agreement, the long-term and short-term strategic and economic benefits of the proposed merger, the short and long-term *pro forma* financial impact and the *pro forma* ownership percentages of the and potential effects on the outstanding common stock of the combined company which would be held by the present holders of Peoples and Pensco common stock and determined that it is advisable and in the best interests of Peoples for Peoples to enter into the merger agreement with Pensco. Accordingly, Peoples board of directors recommends that Peoples shareholders vote FOR approval and adoption of the merger agreement.

In the course of making its decision to approve the transaction with Pensco, Peoples board of directors consulted with Peoples independent merger and acquisitions committee, executive management and Peoples financial and legal advisors. Peoples board of directors considered, among other things, the following factors:

Peoples board of directors reviewed its own strategic opportunities, business, operations, financial condition, earnings, and prospects and also reviewed Pensco's business, operations, financial condition, earnings, and prospects, including both Peoples and Pensco's geographic positions in Northeastern Pennsylvania and Southern New York. After concluding its review, Peoples concluded that the merger would enhance its competitive strategic position, potential prospective business opportunities, operations, management, prospective financial condition, future earnings and business prospects. Specifically, Peoples believes that the merger will enhance its business opportunities due to the combined company having a greater market share, market presence and the ability to offer more diverse (i.e. Trust Services and merchant services) and more profitable products, as well as a broader based and geographically diversified branch system to enhance deposit collection and funding costs, and a higher legal and business lending limit to originate larger and potentially more profitable commercial loans. The greater market share, market diversity and enhanced products and services should lead to prospects of enhancing customer relationships, lower operating costs, increased earnings, and enhanced profitability from better and more diversified sources. The board of directors of Peoples viewed these items as favorable factors, supporting the decision to proceed with the merger;

Its understanding of the current and prospective environment in which Peoples and Pensco operate, including regional and local economic conditions, the competitive environment for financial institutions generally, and continuing prospects for mergers in the financial services industry, and the likely effect of these factors on Peoples and Pensco, in light of, and in absence of, the proposed business combination. Specifically, the board of directors of Peoples believes that the future business environment for financial institutions will become more competitive and concentrated. The board of directors of Peoples believes that the merger will help the resulting bank be more competitive with the institutions remaining in the market place because the combined company will have numerous and greater resources than either company had individually. The board of directors of Peoples viewed these items as favorable factors, supporting the decision to proceed with the merger;

The effort of Peoples management to identify potential counterparties to potential transactions; the Peoples Board of Directors weighed the opportunities that they had during the last two years to grow the company and the future prospects of such opportunities. The Board of Directors believes that the ability to grow through potential acquisitions and mergers is meaningful to the long term prospects of Peoples and is enhanced through the combination with Pensco which may result in the ability of the company to grow assets and earnings in the long run for the Peoples shareholders. The Board of Directors viewed this as a favorable feature supporting the decision to proceed with the merger;

The board's review with its legal and financial advisors of the structure of the merger, the financial and other terms of the merger and related documents including the board's assessment of the Peoples exchange ratio to the Peoples shareholders relative to the terms of and benefits to be derived from the merger;

The combination could result in potential annualized cost savings aggregating nearly \$7.1 million, as well as the potential for incremental revenue opportunities enabling a potential significant increase in

Table of Contents

long-term future earnings accretion, improving long-term investor value, and creating a stronger franchise. The potential cost savings are expected to be derived from the reconfiguration of duplicate internal operations and administrative functions and the elimination of redundant external contractual services and from the convergence and standardization of various retirement, bonus, and incentive programs. The board of directors of Peoples viewed these items as favorable factors, supporting the decision to proceed with the merger;

The proposed board and management structure which would position the combined company with strong leadership and strategic vision while improving its ability to attract and retain competitive management. Specifically, the board of directors of Peoples viewed the resulting management structure and team as addressing a management concern that Peoples had with respect to the future and leadership. The resulting management team of the combined company, its experience and abilities was viewed as a favorable factor by the Peoples board of directors in supporting this transaction;

The review by the Peoples board of directors of the structure and terms of the merger, including the exchange ratio and the expectation that the merger would qualify as a type of transaction that is generally tax-free to shareholders for United States federal income tax purposes. The board of directors of Peoples reviewed the tax-free treatment for federal income tax purposes as favorable because the board believes that it would provide the shareholders of Penseco with more value than a taxable transaction on similar terms and the resulting company with clarity of tax status. The board viewed the exchange ratio relative to the other terms as favorable because of the future prospects for combined growth (both organic and inorganic) and profitability and the potential for price appreciation and liquidity, which factors the Peoples board of directors viewed as favorably supporting the decision to proceed with the merger;

The ability to offer more diverse and progressive business services and products of Penseco to Peoples customers could result in opportunities to obtain synergies and compete with larger financial institutions as products are cross-marketed and distributed over a broader customer base. Specifically, the board of directors of Peoples believes that this will enhance the ability to generate profits. This was viewed favorably by the Peoples board of directors in supporting the transaction;

The prospects to increase long-term shareholder value by increasing the potential of share liquidity (the potential quotation of share transactions on a national exchange), increasing common stock dividends to \$1.24 per share through cost savings and enhanced and accelerated earnings, and enhanced consolidated earnings, provided sufficient funds are legally available and that Peoples and its subsidiary bank remains well-capitalized in accordance with applicable regulatory guidelines;

The fact that certain provisions of the merger agreement prohibit or limit Penseco from soliciting or responding to proposals for alternative transactions, Penseco's obligation to pay a termination fee of \$3.7 million if the merger agreement is terminated due to Penseco accepting another offer, and Penseco's obligation to pay \$600,000 in liquidated damages in the event that the merger agreement is terminated due to Penseco's breach;

The fact that, pursuant to the merger agreement, Penseco must generally conduct its business in the ordinary course and Penseco is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger or termination of the merger agreement;

The financial information and analyses presented by Boenning & Scattergood, Inc. to the board of directors, and the opinion of Boenning & Scattergood, Inc. to the effect that, as of the date of such opinion, based upon and subject to the factors and assumptions set forth in such opinion, the exchange ratio in the proposed merger was fair to the shareholders of Peoples from a financial point of view;

The likelihood that the regulatory approvals necessary to complete the merger would be obtained;

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

The historical illiquidity of Peoples common stock was reviewed. However, this short-term negative was offset by the belief by the Peoples board of directors that the overall company structure, resulting management, synergies, cost savings and potential revenue enhancements would create and enhance long-term shareholder value and liquidity and these were deemed to outweigh any short-term negatives; and

Table of Contents

The merger will not result in any immediate branch closures by either Peoples or Penseco because the market areas are tangential and not overlapping. This was viewed as a positive factor by the Peoples board of directors.

The board of directors of Peoples also considered the fact that the combined institution would result in a financial institution with more than \$1.6 billion in assets. The addition of the other market area is expected to provide sustained business development opportunities by enabling Peoples and Penseco to capitalize on the other s banking franchise to compete in the Northeastern Pennsylvania market.

Peoples board of directors reviewed the totality of the future prospects opportunities of Peoples its needs, the environment relative to the terms of the merger and its anticipated effects and concluded that the merger and its terms with the prospects of enhanced earnings, dividends, liquidity, with stronger, broader and deeper management while retaining operational focus were in the best long-term interests of Peoples and its shareholders.

Peoples board of directors also considered the following:

The fact that Peoples shares to be issued to holders of Penseco stock to complete the merger will result in reduced ownership and voting interest to existing Peoples shareholders. While ownership reduction is expected to occur in the short term, the board of directors believes that the long-term benefits to be derived from the merger (increased long-term earnings, cost savings, enhanced management, increased dividends, among other things) more than offset this;

The proposed board and management arrangements, including Peoples commitment to (i) appoint eight (8) Penseco directors and six (6) Peoples directors to the combined fourteen (14) member Peoples board of directors and to Peoples Neighborhood Bank board of directors, (ii), consider employing certain senior officers of Penseco as employees of Peoples after the merger;

The risk that integration of Peoples and Penseco will not occur as desired and the potential impact of integration if not successful on the expected benefits of the merger;

The potential challenges associated with obtaining regulatory approvals required to complete the transaction in a timely manner;

The fact that, pursuant to the merger agreement, Peoples must generally conduct its business in the ordinary course and Peoples is subject to a variety of other restrictions on the conduct of its business prior to the completion of the merger or termination of the merger agreement, which may delay or prevent Peoples undertaking business opportunities which may arise pending completion of the merger;

The risk that potential benefits (strategic, operational, financial), cost benefits and other synergies sought in the merger may not be realized or may not be realized within the expected time period and the risks associated with the integration of Peoples and Penseco;

The risk that certain tax attributes of Peoples and Penseco may be affected by the transaction; and

The potential for diversion of management and employee attention and for employee attrition during the period prior to the completion of the merger and the potential effect on Peoples business and relations with customers, service providers and other stakeholders whether or not the merger is consummated.

The foregoing discussion of the factors considered by the Peoples board of directors in evaluating the merger agreement is not intended to be exhaustive, but, rather, includes all material factors considered by the Peoples board of directors. Peoples board of directors evaluated the factors described above, including asking questions of Peoples legal and financial advisors. In reaching its decision to approve the agreement and the merger, the Peoples board of directors did not quantify or assign relative values to the factors considered, and individual directors may have given different weights to different factors. The Peoples board of directors relied

Table of Contents

on the experience and expertise of its legal advisors regarding the structure of the merger and the terms of the merger agreement and on the experience and expertise of its financial advisors for quantitative analysis of the financial terms of the merger.

Peoples board of directors realizes that there can be no assurance about future results, including results expected or considered in the factors listed above. The Peoples board of directors considered all of the above factors as a whole, and on an overall basis considered them to be favorable to, and support, its determination to enter into the merger agreement.

Recommendation of the Peoples Board of Directors

The Peoples board of directors has approved the merger agreement and the merger and believes that the proposed merger is in the best interests of Peoples and its shareholders. Accordingly, the Peoples board of directors recommends that Peoples shareholders vote FOR approval and adoption of the merger agreement, the merger and the transactions in connection therewith.

Opinion of Peoples Financial Advisor

By letter dated April 12, 2013, Peoples retained Boenning & Scattergood, Inc., or Boenning, to act as its exclusive financial advisor in connection with a possible sale, merger, or other business combination. Boenning & Scattergood, Inc. is an investment banking firm headquartered in West Conshohocken, Pennsylvania with an expertise in merger and acquisitions involving banks and other financial institutions. Boenning & Scattergood, Inc. is regularly engaged in the valuation of financial institutions and their securities in connection with mergers and acquisitions and other corporate transactions.

Boenning & Scattergood, Inc. acted as financial advisor to Peoples in connection with the proposed transaction and participated in certain of the negotiations leading to the execution of the merger agreement, dated as of June 28, 2013. At a meeting of the Peoples board of directors on June 28, 2013, the Peoples board of directors reviewed the merger agreement and Boenning & Scattergood, Inc. delivered to the board of directors its oral and written opinion, that as of such date and based upon and subject to the various considerations set therein, the exchange ratio was fair to the holders of Peoples common stock from a financial point of view. The Peoples board of directors approved the merger agreement at this meeting. We will refer to the opinion of June 28, 2013 as the Opinion

The full text of Boenning & Scattergood, Inc.'s written opinion dated June 28, 2013, which is referred to herein as the Opinion, is attached as Annex B and is incorporated in this joint proxy statement/prospectus by reference. The Opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Boenning & Scattergood, Inc. in rendering the Opinion. The description of the Opinion set forth below is qualified in its entirety by reference to the Opinion. Peoples shareholders are urged to read the entire Opinion carefully in connection with their consideration of the proposed merger.

The Opinion speaks only as of its date. The Opinion was directed to the Peoples board of directors and is directed only to the fairness, from a financial point of view, of the exchange ratio to be paid to the holders of Peoples common stock. It does not address the underlying business decision of Peoples to engage in the merger or any other aspect of the merger and is not a recommendation to any Peoples shareholder as to how such shareholder should vote at the special meeting with respect to the merger or any other matter.

In connection with rendering the Opinion, Boenning & Scattergood, Inc. reviewed and considered, among other things:

the merger agreement;

audited financial statements for the three years ended December 31, 2012 and other historical financial information of Peoples;

certain publicly available financial statements and other historical financial information of Penseco;

Table of Contents

certain internal financial projections for Peoples and Penseco and for the year ending December 31, 2012, as provided by senior management of Peoples and Penseco;

the *pro forma* financial impact of the proposed merger between Penseco and Peoples based on assumptions as determined by the senior managements of Peoples and Penseco, relating to transaction expenses, purchase accounting adjustments, the application of reverse merger accounting treatment to the merger and cost savings;

the terms and structures of other comparable recent mergers and acquisition transactions in the commercial banking sector;

the current market environment generally and in the commercial banking sector in particular; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as Boenning & Scattergood, Inc. considered relevant.

the current market environment generally and in the commercial banking sector in particular; and

such other information, financial studies, analyses and investigations and financial, economic and market criteria as Boenning & Scattergood, Inc. considered relevant.

Boenning & Scattergood, Inc. also discussed with certain members of senior management of Peoples the business, financial condition, results of operations and prospects of Peoples and held similar discussions with senior management of Penseco concerning the business, financial condition, results of operations and prospects of Penseco.

In performing its review, Boenning & Scattergood, Inc. relied upon the accuracy and completeness of all of the financial and other information that was available to Boenning & Scattergood, Inc. from public sources, that was provided to Boenning & Scattergood, Inc. by Peoples and Penseco, or their respective representatives, or that was otherwise reviewed by Boenning & Scattergood, Inc., and Boenning & Scattergood, Inc. has assumed such accuracy and completeness for purposes of rendering the Opinion. Boenning & Scattergood, Inc. has further relied on the assurances of the respective managements of Peoples and Penseco that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Boenning & Scattergood, Inc. has not been asked to and has not undertaken an independent verification of any of such information and does not assume any responsibility or liability for the accuracy or completeness thereof. Boenning & Scattergood, Inc. did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of Peoples and Penseco or any of their respective subsidiaries. Boenning & Scattergood, Inc. renders no opinion or evaluation on the collectability of any assets or the future performance of any loans of Peoples and Penseco. Boenning & Scattergood, Inc. did not make an independent evaluation of the adequacy of the allowance for loan losses of Peoples and Penseco, or the combined entity after the merger, and it has not reviewed any individual credit files relating to Peoples and Penseco. Boenning & Scattergood, Inc. has assumed, with Peoples' consent, that the respective allowances for loan losses for both Peoples and Penseco are adequate to cover such losses and will be adequate on a *pro forma* basis for the combined entity.

In preparing its analyses, Boenning & Scattergood, Inc. used internal financial projections for Peoples and Penseco as provided by the senior management of Peoples and Penseco. Boenning & Scattergood, Inc. also received and used in its analyses certain projections of transaction costs, purchase accounting adjustments, expected cost savings and other synergies which were prepared by and/or reviewed with the senior management of Peoples and Penseco. With respect to those projections, estimates and judgments, the management of Peoples and Penseco confirmed to Boenning & Scattergood, Inc. that those projections, estimates and judgments reflected the best currently available estimates and judgments of Peoples management of the future financial performance of Peoples and Boenning & Scattergood, Inc. assumed that such performance would be achieved. The projections furnished to Boenning & Scattergood, Inc. and used by it in certain of its analyses were prepared by Peoples' and Penseco's senior management team. Peoples and Penseco does not publicly disclose internal management projections of the type provided to Boenning & Scattergood, Inc. in connection with its review of the merger. As

Table of Contents

a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. Boenning & Scattergood, Inc. expresses no opinion as to such financial projections or estimates or the assumptions on which they are based. Boenning & Scattergood, Inc. has also assumed that there has been no material change in Peoples and Pensco's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to Boenning & Scattergood, Inc. Boenning & Scattergood, Inc. has assumed in all respects material to its analysis that Peoples and Pensco will remain as going concerns for all periods relevant to its analyses, that all of the representations and warranties contained in the merger agreement and all related agreements are true and correct, that each party to the merger agreement will perform all of the covenants required to be performed by such party under the merger agreement and that the conditions precedent in the merger agreement are not waived. Finally, with the consent of Peoples, Boenning & Scattergood, Inc. has relied upon the advice that Peoples has received from its legal, accounting and tax advisors as to all legal, accounting and tax matters relating to the merger and the other transactions contemplated by the merger agreement.

The Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect the Opinion. Boenning & Scattergood, Inc. has not undertaken to update, revise, reaffirm or withdraw the Opinion or otherwise comment upon events occurring after the date thereof.

The Opinion was directed to the Peoples board of directors in connection with its consideration of the merger and does not constitute a recommendation to any shareholder of Peoples as to how any such shareholder should vote at the Peoples special meeting. The Opinion is directed only to the fairness, from a financial point of view, of the exchange ratio to the holders of Peoples common stock and does not address the underlying business decision of Peoples to engage in the merger, the relative merits of the merger as compared to any other alternative business strategies that might exist for Peoples or the effect of any other transaction in which Peoples might engage. The Opinion shall not be reproduced or used for any other purposes, without Boenning & Scattergood, Inc.'s prior written consent. The Opinion has been approved by Boenning & Scattergood, Inc.'s fairness opinion committee. Boenning & Scattergood, Inc. has consented to inclusion of the Opinion and a summary thereof in this joint proxy statement/prospectus and in the registration statement on Form S-4 which includes this joint proxy statement/prospectus. Boenning & Scattergood, Inc. does not express any opinion as to the fairness of the amount or nature of the compensation to be received in the merger by any officer, director, or employee, or class of such persons, relative to the compensation to be received in the merger by any other shareholder.

In rendering its Opinion, Boenning & Scattergood, Inc. performed a variety of financial analyses. The following is a summary of the material analyses performed by Boenning & Scattergood, Inc., but is not a complete description of all the analyses underlying Boenning & Scattergood, Inc.'s opinion. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. In arriving at its opinion, Boenning & Scattergood, Inc. did not attribute any particular weight to any analysis or factor that it considered. Rather, Boenning & Scattergood, Inc. made qualitative judgments as to the significance and relevance of each analysis and factor. Boenning & Scattergood, Inc. did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support the Opinion; rather Boenning & Scattergood, Inc. made its determination as to the fairness of the exchange ratio on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Boenning & Scattergood, Inc. believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and

Table of Contents

analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Boenning & Scattergood, Inc.'s comparative analyses described below is identical to Peoples or Penseco and no transaction is identical to the merger. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or merger transaction values, as the case may be, of Peoples or Penseco and the companies to which they are being compared.

In performing its analyses, Boenning & Scattergood, Inc. also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of Peoples, Penseco and Boenning & Scattergood, Inc. The analysis performed by Boenning & Scattergood, Inc. is not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Boenning & Scattergood, Inc. prepared its analyses solely for purposes of rendering the Opinion and provided such analyses to the Peoples board of directors at the June 28, 2013 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. Accordingly, Boenning & Scattergood, Inc.'s analyses do not necessarily reflect the value of Peoples' common stock or the prices at which Peoples' common stock may be sold at any time. The analysis and the Opinion of Boenning & Scattergood, Inc. was among a number of factors taken into consideration by the board of directors of Peoples in making its determination to approve of Peoples' entry into the merger agreement and the analyses described below should not be viewed as determinative of the decision the board of directors of Peoples or management with respect to the fairness of the merger.

At the June 28, 2013 meeting of the Peoples board of directors, Boenning & Scattergood, Inc. presented certain financial analyses of the merger. The summary below is not a complete description of the analyses underlying the opinions of Boenning & Scattergood, Inc. or the presentation made by Boenning & Scattergood, Inc. to the Peoples board of directors, but is instead a summary of the material analyses performed and presented in connection with the Opinion.

Summary of Transaction. The merger, while considered a merger of equals, will be accounted for as a reverse acquisition by Penseco of Peoples using the purchase method of accounting and, accordingly, the assets and liabilities of Peoples will be recorded at their respective fair values on the date the merger is completed. The Merger will be effected by the issuance of shares of Peoples stock to Penseco shareholders. In accordance with ASC Topic 805: Business Combinations, the final accounting purchase price assigned to record the shares issued in the merger will be based on the closing price of Penseco's common stock on the effective date of the merger.

While Penseco's stock price be used to determine the final accounting purchase price, for purposes of its opinion, Boenning & Scattergood calculated an offer-based purchase price, implied pricing and valuation multiples based upon Peoples' 10-day average stock price as of June 27, 2013, of \$36.07. Each share of Penseco common stock will be exchanged for 1.3636 shares of Peoples common stock. The implied offer price in stock paid to Penseco was derived by multiplying the negotiated exchange ratio of 1.3636 by Peoples' 10-day average stock price of \$36.07 stock price resulting in a per share value to Penseco's shareholders of \$49.19.

Table of Contents

Based on Peoples price per common share of \$36.07 (the 10-day average price per common share price of Peoples as of June 27, 2013, the day prior to the announcement of the transaction) and the negotiated exchange ratio of 1.3636, the key transaction statistics were as follows:

Aggregate Implied Consideration Offered to Pensoco	\$ 161.1Million
Implied Consideration Offered Per Pensoco Common Share	\$ 49.19
Premium / (Discount) to Pensoco s Average Reported Stock Price (1)	29.7%
Aggregate Implied Consideration Offered to Pensoco s:	
Book Value per Share	121%
Tangible Book Value per Share	152%
Last Twelve Months (LTM) Earnings per Share	15.5x
<i>Pro Forma</i> Peoples Ownership	40.8%
<i>Pro Forma</i> Pensoco Ownership	59.2%

(1) Based on \$37.92 per share which represented the price of Pensoco s 10-day average stock price as of June 27, 2013. *Comparable Companies Analysis.* Boenning & Scattergood compared selected publicly available financial, operating and stock market data for both Peoples and Pensoco with those of a peer group in order to compare their historical financial and operating performance with the peers and examine the financial considerations relative to the market valuations of the peers. The financial and operating data is as of March 31, 2013 (unless otherwise noted), and the stock market data is as of June 27, 2013. Peoples peers consisted of companies with an asset size between \$400 million and \$700 million and are located in Pennsylvania. Pensoco s peers have asset sizes between \$750 million and \$1.25 billion and are located in Pennsylvania. Their respective peers are summarized below:

Peoples Financial Services Corporation		Pensoco Financial Services Corporation	
Norwood Financial Corporation	American Bank Incorporated	Citizens & Northern Corporation	QNB Corporation
Embassy Bancorp, Inc.	Emclair Financial Corporation	Orrstown Financial Services, Inc.	Citizens Financial Services, Inc.
DNB Financial Corporation	Northumberland Bancorp*	Codus Valley Bancorp, Inc.	Penns Woods Bancorp, Inc.
CCFNB Bancorp, Inc.	Juniata valley Financial Corporation	Pensoco Corporation	First Keystone Corporation
Dimeco, Inc.	Hamlin Bank and Trust Company*	Republic First Bancorp, Inc.	FNB Bancorp, Inc.
Fidelity D&D Bancorp, Inc.	First Community Financial Corporation*	Franklin Financial Services Corporation	ENB Financial Corporation
Honat Bancorp, Inc.	CBT Financial Corporation	AmeriServ Financial, Inc.	Somerset Trust Holding Company
Kish Bancorp, Inc.	Allegheny Valley Bancorp, Inc.	First National Community Bancorp, Inc.	Royal Bancshares of Pennsylvania, Inc.
CB Financial Services, Inc.*			

* Financial data as of December 31, 2012.

Table of Contents

Boenning & Scattergood, Inc. compared selected operating, financial data for Peoples with those of its peers. The financial and operating data for Peoples peer group is as of March 31, 2013 (unless otherwise noted) and all market data is as of June 27, 2013.

	Peoples (\$ in Thousands)	Peer Median
Total Assets	\$ 677,782	\$ 534,056
Tang. Equity / Tang. Assets	9.9%	9.1%
Loans / Deposits	82.3%	76.2%
Nonperforming Assets(1) / Assets	1.86%	1.37%
LTM(3) Return on Average Assets	1.38%	0.90%
LTM(3) Return on Average Common Equity	14.30%	9.23%
LTM(3) Non-Interest Income / Average Assets	0.78%	0.74%
LTM(3) Non-Interest Expense / Average Assets	2.41%	2.54%
LTM(3) Efficiency Ratio(2)	52.1%	64.1%
LTM(3) Net Interest Margin	3.92%	3.49%
Price / 52 Week High Price	87.5%	91.1%
Price to:		
Book Value Per Common Share	158.8%	104.5%
Tangible Book Value Per Common Share	160.0%	115.6%
LTM(3) Earnings Per Common Share	12.1x	11.5x
Dividend Yield	2.64%	3.63%
Avg. Weekly Volume / Common Shares Outstanding	0.12%	0.09%

(1) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.

(2) Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.

(3) LTM stands for the latest twelve months.

Boenning & Scattergood, Inc. compared selected operating, financial data for Pensco with those of its peers. The financial and operating data for Pensco's peer group is as of March 31, 2013 (unless otherwise noted) and all market data is as of June 27, 2013.

	Pensco (\$ in Thousands)	Peer Median
Total Assets	\$ 929,788	\$ 922,432
Tang. Equity / Tang. Assets	11.7%	9.2%
Loans / Deposits	85.8%	68.6%
Nonperforming Assets(1) / Assets	0.50%	1.86%
LTM(3) Return on Average Assets	1.13%	0.90%
LTM(3) Return on Average Common Equity	7.86%	8.75%
LTM(3) Non-Interest Income / Average Assets	1.20%	0.81%
LTM(3) Non-Interest Expense / Average Assets	3.14%	2.88%
LTM(3) Efficiency Ratio(2)	63.4%	65.2%
LTM(3) Net Interest Margin	4.05%	3.57%
Price / 52 Week High Price	96.8%	91.6%
Price to:		
Book Value Per Common Share	92.8%	110.9%
Tangible Book Value Per Common Share	116.6%	111.4%
LTM(3) Earnings Per Common Share	11.9x	11.5x
Dividend Yield	4.45%	2.53%
Avg. Weekly Volume / Common Shares Outstanding	0.12%	0.25%

Table of Contents

- (1) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due.
- (2) Defined as non-interest expense less intangible amortization divided by the sum of net interest income plus non-interest income.
- (3) LTM stands for the latest twelve months.

Contribution Analysis. Boenning & Scattergood analyzed the contribution that Peoples would have made to various assets, liabilities, revenue and income of the combined company's latest twelve month earnings as of March 31, 2013 (except where noted). Boenning & Scattergood also reviewed the ownership percentage that Penseco's shareholders would receive in the transaction relative to its financial contribution to the combined company. Existing Peoples' shareholders will own approximately 40.8% of the combined company's common stock value of the combined company. Boenning & Scattergood has not expressed any opinion as to the actual value of Peoples common stock when issued in the merger or the price at which Peoples common stock will trade after the merger.

The analysis indicated the following information as of and for the twelve months ended March 31, 2013 (except where noted) for both Peoples and Penseco:

	Peoples	Penseco
Total Assets	42%	58%
Gross Loans	43%	57%
Deposits	44%	56%
Total Equity	34%	66%
Tangible Equity	39%	61%
Tangible Common Equity	39%	61%
LTM(1) Net Income	46%	54%
2013 Estimated Net Income	47%	53%
Non-Performing Assets(2)	25%	75%
LTM(1) Net Interest Income	42%	58%
LTM(1) Non-Interest Expense	35%	65%
LTM(1) Non-Interest Income	32%	68%
<i>Pro Forma</i> Ownership	41%	59%

- (1) LTM stands for the latest twelve months.
- (2) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due. Ratios are actually reversed as a higher amount would support a lower respective contribution percentage.

Contribution Analysis Comparison. Boenning & Scattergood analyzed the contribution that Peoples would have made to various assets, liabilities, revenue and income of the combined company's latest twelve month earnings as of March 31, 2013 against comparable publicly available metrics of certain companies that had undertaken a merger of equal transaction according to SNL Securities, LLC. This analysis was conducted in order to compare the level of contribution that Peoples was making to the combined entity relative to the amount of *pro forma* ownership its shareholders would retain relative to the peer group. Boenning & Scattergood has not expressed any opinion as to the actual value of Peoples common stock when issued in the merger or the price at which Peoples common stock will trade after the merger.

Table of Contents

The analysis indicated the following information as of and for the twelve months ended March 31, 2013 for both Peoples and Penseco and the last publicly reported data prior to the transaction involving the peer medians:

	Peoples / Penseco	Merger of Equal Peer Medians
Contribution of:		
Assets	42% / 58%	52% / 48%
Non-Performing Assets(1)	25% / 75%	55% / 45%
Tangible Common Equity	39% / 61%	57% / 43%
Net Income	46% / 54%	50% / 50%
Market Capitalization	50% / 50%	58% / 42%
<i>Pro Forma</i> Board Representation	43% / 57%	50% / 50%
<i>Pro Forma</i> Ownership	41% / 59%	52% / 48%

(1) Defined as total nonaccrual loans plus other real estate owned plus accruing loans that are 90 days past due. Ratios are actually reversed as a higher amount would support a lower respective contribution percentage.

No company, however, used in this analysis is identical to Peoples, Penseco or the transaction. Accordingly, an analysis of the result of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that would affect the public trading values of the companies or company to which they are being compared.

Discounted Dividend Analysis. Using a discounted dividend analysis, Boenning & Scattergood, Inc. estimated the present value of the future cash flows that would accrue to a holder of a share of Peoples common stock over a five-year period. This analysis was performed in order to compare the financial consideration in the transaction to an estimated implied value for Peoples common stock based on projected future cash flows. This stand-alone analysis was based on several assumptions, including a price to earnings multiple range of 10.0x to 14.0x of Peoples terminal year common earnings per share, EPS growth rates based upon Peoples management's five-year projected earnings per share, and Peoples current common cash dividend payout ratio of 30.0%. On June 27, Peoples price to earnings multiple was 12.1x while the median value of its peers was 11.5x. The multiple applied to Peoples estimated five-year earnings per share value is Peoples current price to earnings multiple. The terminal value and projected annual cash dividends were then discounted to present value using a discount rate of 14.3%. This discount rate was used in order to reflect an expected rate of return required by holders or prospective buyers of Peoples common stock. The analysis indicated that, based upon the aforementioned assumptions, the per common share present value of Peoples common stock, on a stand-alone basis, ranged from \$19.73 to \$42.53. Based on Peoples then current price to earnings multiple of 12.1x, the midpoint value was approximately \$29.54.

Boenning & Scattergood, Inc. performed a similar analysis on the five-year financial projections of Peoples tangible book value per share. This analysis was based on a tangible book multiple range of 1.16x (Peoples median peers multiple as of June 27, 2013) and 1.60x (Peoples June 27, 2013, price to tangible book) to the terminal year tangible book value based upon Peoples management's five-year projected earnings per share, EPS growth rates based upon Peoples management's five-year projected earnings per share, and Peoples current common cash dividend payout ratio of 30.0%. The terminal value was then discounted to present value using a discount rate of 14.3%. The analysis indicated that, based upon the aforementioned assumptions, the per share present value of Peoples common stock, on a stand-alone basis, ranged from \$22.36 to \$34.07. Based on Peoples then current price to tangible book value multiple of 1.60x, the midpoint value was approximately \$31.77.

In connection with the discounted dividend analysis performed, Boenning & Scattergood considered and discussed with Peoples board how the present value analysis would be affected by changes in the underlying assumptions, including variations with respect to the growth rate of assets, net interest spread, non-interest income, non-interest expenses and dividend payout ratio. Boenning & Scattergood noted that the discounted dividend stream and terminal value analysis is a widely used valuation methodology, but the assumptions that must be made, and the results of this analysis, are not necessarily indicative of actual values or future results.

Table of Contents

Pro Forma Merger Analysis. Boenning analyzed certain potential *pro forma* effects of the merger, assuming the following: (i) the merger had been completed as of March 31, 2013; (ii) the implied price to be paid by Peoples for each share of Penseco common stock at the time of the announcement was \$49.19 based on the fixed stock-for-stock exchange ratio of 1.3636 shares of Peoples common stock for each share of Penseco common stock; (iii) estimated one-time transaction related costs expensed prior to closing; (iv) Peoples performance was calculated in accordance with Peoples management's prepared earnings projections; (v) Penseco performance was calculated in accordance with Penseco management's prepared earnings projections; (vi) certain other assumptions pertaining to costs and expenses associated with the transaction, intangible amortization, opportunity cost of cash and other items. The analyses indicated that, for the full years 2013 and 2014, the merger (excluding transaction expenses) would be accretive to Peoples projected earnings per share and, on a *pro forma* basis as of March 31, 2013, would be slightly dilutive to Peoples tangible book value per share. In addition, the *pro forma* quarterly cash dividend of \$.31 per share for the combined company would be accretive to Peoples current quarterly cash dividend of \$.23 per share. The actual results achieved by the combined company may vary from projected results and the variations may be material.

Boenning's Compensation and Other Relationships with Peoples. Boenning has acted as financial advisor to Peoples in connection with the merger and received a fee totaling \$25,000 prior to the execution of the definitive agreement. In addition, Peoples agreed to pay Boenning a transaction fee of approximately \$805,000 of which \$275,000, which included, among other things, delivery of Boenning's opinion, was paid upon the signing of a definitive agreement with the remainder to be paid upon the closing of the merger. Peoples has also agreed to reimburse Boenning for its reasonable out-of-pocket expenses and to indemnify Boenning against certain liabilities arising out of its engagement. Boenning's Opinion was approved by Boenning's fairness opinion committee.

In the ordinary course of their respective broker and dealer businesses, Boenning may purchase securities from and sell securities to Peoples and Penseco and their affiliates. Boenning may also actively trade the equity securities of Peoples and Penseco or their affiliates for its own accounts and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

Penseco's Reasons for the Merger

The Penseco board of directors and its independent committee consulted with Penseco's management, as well as legal and financial advisors and determined that the merger is in the best interests of Penseco and Penseco's shareholders. In reaching its conclusions to approve the merger agreement, the Penseco board considered the terms and conditions of the merger agreement, as well as a number of factors, including the following material factors:

Strategic Considerations

The merger of Penseco and Peoples would create a financial institution with \$1.6 billion in assets. The combined company's increased size and scale would be better able to absorb increasing regulatory and compliance expenses than Penseco would on its own;

The geographic expansion into a region of the Marcellus Shale which has experienced significant natural gas drilling activity and the economic benefits associated with such activity;

The significant increase in assets, capital, earnings and management depth; along with the potential listing on a national exchange, would create opportunities for future strategic acquisitions, asset growth, earnings growth and increased shareholder value;

The ability to offer fiduciary wealth management, estate and trust services to existing customers of Peoples and residents of the Marcellus Shale region;

The current environment in the banking and financial services industry, including national and regional economic conditions, continued consolidation, evolving trends and competition, and the likely effect of these factors on Penseco in light of, and in the absence of, the merger;

Table of Contents

Penseco's business, operations, financial condition, earnings and prospects and Peoples' business, operations, financial condition, earnings and prospects, taking into account the results of the due diligence review of Peoples by Penseco and its financial, legal and other advisors;

The potential alternatives available to Penseco, including other potential extraordinary transactions and the alternative of remaining independent, and the risks and challenges inherent in successfully implementing Penseco's business plans, the value to the shareholders of these alternatives, the timing and likelihood of achieving value from these alternatives; and

The ability to complete the merger, including, in particular, the likelihood of obtaining regulatory approval and the provisions of the merger agreement regarding the parties' obligations to pursue the regulatory approvals.

Financial Impact on Shareholders

The merger would result in potential annualized cost savings of \$7.1 million, as well as the potential for increased revenue opportunities which would provide significant increases in earnings per share over what Penseco would have earned per share had it remained independent. The potential cost savings are expected to come from the reduction of duplicate resources and administrative functions as well as the elimination of redundant external contractual services and the standardization of various retirement benefits;

The potential for the combined company to generate greater earnings per share and tangible book value per share for Penseco shareholders, on an as-converted basis, than Penseco would have the ability to achieve should it remain independent;

Peoples' consenting to increase the dividend per share enabling Penseco shareholders to continue to earn, on an as converted basis, the same level of dividend;

The exchange ratio of 1.3636 shares of Peoples shares for each share of Penseco. The closing market price per share of Peoples common stock of \$34.90 on June 27, 2013, the last trading day prior to the approval of the merger agreement by the Penseco board of directors, which, when multiplied by the exchange ratio would suggest a market value of the merger consideration to be received by Penseco shareholders of \$47.59;

The ability to increase scale and accelerate the achievement of certain of Penseco's strategic goals, including listing on a national exchange, expanding geographically and into a significant Marcellus shale region, and gaining access to personnel, expertise and other resources;

The expected revenue enhancement and diversification, as well as cost savings and efficiencies; and

The ability of the combined company to continue to grow, through both its operations and potential future acquisitions.

Effect on Common Stock

The greater liquidity of the combined company's common stock relative to Penseco's common stock;

The increased market capitalization of the combined company relative to Penseco's current market capitalization; and

The parties' commitment to pay a minimum dividend of \$0.31 per share of the surviving corporation for 5 years after the merger, subject to availability of sufficient funds and retention of the combined bank's well capitalized status.

Table of Contents

Form of Merger Consideration

1.3636 shares of Peoples common stock for each share of Penseco common stock;

The expectation that the receipt of Peoples common stock by Penseco shareholders would generally be tax-free for U.S. federal income tax purposes; and

Penseco shareholders would have the ability to continue to participate in the growth of the combined company.

Value of Merger Consideration

The premium to the market value of Penseco common stock represented by the value of the merger consideration;

The historical and current market prices of Penseco common stock and Peoples common stock;

The prices, multiples of earnings per share and premiums on core deposits in other recent acquisitions of financial institutions, as compared to the price, multiples and premiums in the merger;

The *pro forma* financial effects of the merger, including the potential cost savings (resulting from back office efficiencies, consolidations and other cost savings) and enhanced revenue anticipated from the merger and the effects of the merger on the risk-based and leverage capital ratios of the combined company and the prospects of enhanced earnings per share growth attained by a merger with Peoples; and

The financial analysis conducted by Griffin Financial Group, LLC and its opinion to the board of directors that, as of the date of the merger agreement, the exchange ratio is fair, from a financial point of view, to Penseco shareholders.

No Shop, Termination and Break-Up Fee

The restrictions imposed on Penseco and Peoples from soliciting alternative transactions;

The fact that parties respective board of directors may withdraw or modify its recommendation that its shareholders approve the merger only if the board concludes in good faith, after consultation with outside counsel, that failure to do so may constitute a breach of its fiduciary duties;

The provisions permitting the Penseco board of directors to terminate the merger agreement if the value of Peoples common stock were to decline by more than 25% from its price after the announcement of the merger agreement; and underperform the NASDAQ Bank Index by more than 25% during such time period;

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

The break-up fee of \$3.7 million that Penseco or Peoples would be required to pay to the other if the merger agreement is terminated under certain circumstances and Penseco or Peoples subsequently merges, is acquired or liquidates;

The fact that the break-up fee provision of the merger agreement could have the effect of discouraging superior proposals for a business combination between Penseco or Peoples and a third party; and

The fact that Peoples or Penseco may terminate the merger agreement upon a material breach by the other party and receive reimbursement of actual out-of-pocket costs and expenses, not to exceed \$600,000.

Directors and Officers

The agreement that 8 of the 14 members of the combined company's board of directors would be alumni of the Penseco board of directors and that Craig W. Best would be appointed to serve as the combined company's chief executive officer;

The existence and nature of the voting agreements to be obtained from the directors of Penseco and Peoples in support of the merger; and

Table of Contents

The fact that the interests of certain of Pensco's and Peoples' officers and directors may be said to be different from, or in addition to, the interests of shareholders generally.

Other Constituencies

The possible effects of the merger on Pensco's employees, customers, suppliers and creditors and on the communities in which Pensco's facilities are located;

A common culture of commitment to the communities the companies serve;

The combined company, headquartered in Scranton, will continue to be community based and will be a major force for economic development in Northeastern Pennsylvania, as evidenced by the following information:

In 2012, the two companies collectively spent approximately \$8.5 million with 965 local businesses.

The new company is expected to employ approximately 380 banking professionals.

In 2012, the two companies combined contributed approximately \$763,000 to local charities and nonprofit organizations.

In 2012, the two companies extended over \$380 million in credit to local residents and businesses.

With increased earnings and capital, the new bank should have the ability to spend more in the community, bring jobs to the area, contribute more to local charities and be able to meet the credit needs of larger local companies that, because of their size, have had to secure financing from larger, out of area banks;

Management's belief that Pensco's customers would benefit from a combination with Peoples due to the combined company's enhanced ability to serve its customers more broadly and effectively because of the combined company's greater scale, lending capabilities and range of financial products and services; and

The complexity and risks involved in successfully integrating Pensco and Peoples in a timely manner, and the potential impact of integration on various constituencies

The foregoing discussion of the factors considered by the Pensco board of directors in evaluating the transaction is not intended to be exhaustive, but, rather, includes all material factors considered by the Pensco board of directors. In reaching its decision to approve the transaction, the Pensco board of directors did not quantify or assign relative weights to the factors considered, and individual directors may have given different weights to different factors. The Pensco board of directors evaluated the factors described above, including asking questions of Pensco's management and legal and financial advisors, and determined that the transaction was in the best interests of Pensco.

Recommendation of the Pensco Board of Directors

The Pensco board of directors has unanimously determined that the merger agreement and the merger are fair to and in the best interests of Pensco and that the merger consideration is fair to and in the best interests of the shareholders of Pensco, approved the merger agreement and the merger, and unanimously recommends that Pensco shareholders vote FOR approval of the merger agreement and the merger.

Opinion of Penseco's Financial Advisor

On June 17, 2013, Penseco engaged Griffin Financial Group, LLC (Griffin), to provide financial advisory and investment banking services to Penseco. Griffin agreed to assist Penseco in assessing the fairness to the shareholders of Penseco, from a financial point of view, of the exchange ratio required in the proposed merger of Penseco with Peoples. Griffin is a FINRA licensed, nationally recognized investment banking firm with substantial experience in transactions similar to the merger. As part of its investment banking business, Griffin is engaged in the representation and valuation of financial services companies in connection with mergers and acquisitions.

Table of Contents

As part of its engagement, representatives of Griffin attended the meeting of the Penseco board of directors held on June 28, 2013, at which the Penseco board of directors evaluated the proposed merger with Peoples. At this meeting, Griffin reviewed the financial aspects of the proposed merger and provided its opinion that, as of such date, the exchange ratio in connection with the proposed merger was fair, from a financial point of view, to the shareholders of Penseco. The Penseco board of directors approved the merger agreement at this meeting.

The full text of Griffin's written opinion is attached as Annex C to this document and is incorporated herein by reference. Penseco shareholders are urged to read the opinion in its entirety for a description of the assumptions made, matters considered, procedures followed and qualifications and limitations on the review undertaken by Griffin. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion.

Griffin's opinion speaks only as of the date of the opinion. The opinion is directed to the Penseco board of directors and is limited to the fairness, from a financial point of view, to the shareholders of Penseco with regards to the Exchange Ratio in the transaction. Griffin does not express an opinion as to the fairness of the transaction to creditors or other stakeholders of Penseco or as to the underlying decision by Penseco to engage in the transaction or the relative merits of the transaction compared to other strategic alternatives which may be available to Penseco.

In providing its opinion, Griffin:

- (i) reviewed a draft of the Agreement;
- (ii) reviewed and discussed with Penseco certain publicly available business and financial information concerning Penseco, and the economic and regulatory environments in which it operates;
- (iii) reviewed and discussed with Penseco and Peoples their respective financial information as of December 31, 2012, March 31, 2013 and May 31, 2013 and for the year and year to date periods then ended;
- (iv) discussed with the management of Penseco and Peoples matters relating to their respective financial condition, liquidity, net income, asset quality, reserve levels and capital adequacy and market valuation and related matters as of such dates and for the periods then ended;
- (v) compared the proposed financial terms of the transaction with the publicly available financial terms of certain transactions involving whole bank sales and acquisitions during such time frames as deemed relevant by Griffin;
- (vi) compared the financial condition of Penseco to the financial condition and valuation of certain institutions deemed relevant by Griffin;
- (vii) evaluated, from publicly available sources and discussions with the management of Penseco and Peoples, the capacity of Penseco and Peoples to complete the transaction on a timely basis;
- (viii) discussed with management of Penseco and Peoples the anticipated benefits of and identified risks in the transaction; and
- (ix) performed such other financial studies and analyses and considered such other information as deemed appropriate for the purpose of this opinion

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

In addition, Griffin held discussions with certain members of managements of Penseco and Peoples with respect to certain aspects of the transaction, including past and current business operations, regulatory relations, financial condition, dividend and capital policies, market opportunities within each of their core operating markets, and other matters that it deemed appropriate for the purpose of its opinion.

In conducting its review and arriving at its opinion, Griffin relied upon the accuracy and completeness of all of the financial and other information provided to them or otherwise publicly available. Griffin did not

Table of Contents

independently verify the accuracy or completeness of any such information or assume any responsibility for such verification or accuracy. Griffin relied upon the management of Pensco and Peoples as to the reasonableness and achievability of the financial and operating forecasts and projections (and the assumptions and bases therefore) provided to Griffin and assumed that such forecasts and projections reflected the best currently available estimates and judgments of such managements and that such forecasts and projections will be realized in the amounts and in the time periods estimated by such managements. Griffin assumed, without independent verification, that the aggregate allowances for loan and lease losses for Pensco and Peoples were adequate to cover such losses. Griffin did not make or obtain any evaluations or appraisals of the property, assets or liabilities of Pensco or Peoples, nor did it examine any individual credit files.

The projections and associated assumptions used by Griffin in certain of its analyses were sourced from Pensco and Peoples' senior management teams. Pensco and Peoples do not publicly disclose internal management projections of the type provided to Griffin in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections.

For purposes of providing its opinion, Griffin assumed that, in all respects material to its analysis:

the merger will be completed substantially in accordance with the terms set forth in the merger agreement with no additional payments or adjustments to the Exchange Ratio;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct in all respects material to Griffin's analysis;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers or modifications to the merger agreement; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any termination, divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

Griffin further assumed that the merger will be accounted for using the acquisition method under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes.

Griffin's opinion is not an expression of an opinion as to the prices at which shares of Pensco common stock or shares of Peoples common stock will trade following the announcement of the merger or the actual value of the shares of common stock of the combined company when issued pursuant to the merger, or the prices at which the shares of common stock of the combined company will trade following the completion of the merger.

In performing its analyses, Griffin made various assumptions with respect to economic, general business, industry performance, market and financial conditions and other matters, which are beyond the control of Griffin, Pensco and Peoples. Any estimates contained in the analyses performed by Griffin are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the possible value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses

Table of Contents

and estimates are judgmental and are inherently subject to substantial uncertainty. In addition, the Griffin opinion was among several factors taken into consideration by the Penseco board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the Penseco board with respect to the fairness of the consideration.

The following is a summary of the material analyses presented by Griffin to the Penseco board of directors on June 28, 2013, in connection with Griffin's fairness opinion. The summary is not a complete description of the analyses underlying Griffin's opinion or the presentation made by Griffin to the Penseco board, but summarizes the material analyses performed and presented in connection with such opinion.

The preparation of the fairness opinion is a comprehensive and complex, analytical process, involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Griffin did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized within include information presented in tabular format. Accordingly, Griffin believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Summary of Proposal

Pursuant to the Agreement and Plan of Merger, dated as of June 28, 2013 (the Agreement), by and between Penseco and Peoples, Penseco will be merged with and into Peoples, and each outstanding share of Company Common Stock, other than shares of Company Common Stock held in treasury or owned by Peoples and its affiliates, will be converted into the right to receive 1.3636 shares of Peoples (the Exchange Ratio).

Accounting

As a result of the transaction, former shareholders of Peoples will own approximately 40.8% of the combined institution's outstanding common stock. While Peoples is the legal acquirer in the transaction, Penseco is acquiring control of Peoples, and Penseco is expected to be deemed to be the acquirer for financial reporting purposes (a reverse merger). In accordance with ASC Topic 805: Business Combinations, the final accounting purchase price will be computed using the number of shares Penseco would have had to issue to give Peoples shareholders 40.8% ownership of the combined entity, multiplied by the Penseco stock price on the effective date of the merger. At July 25, 2013 and under ASC Topic 805, Penseco would have needed to issue 2.3 million new shares to give Peoples shareholders 40.8% ownership of the combined entity, and based upon Penseco's stock price on June 25, 2013 of \$37.75, the price paid by Penseco to purchase Peoples would have been \$85.4 million in the aggregate.

Trading Prices

The merger agreement and the exchange ratio will result in Penseco shareholders receiving 1.3636 shares of Peoples common stock for each share of Penseco common stock held. Based on the June 25, 2013 trading price of Peoples common stock of \$34.75, this results in a value to Penseco shareholders of \$47.39 per share, which is greater than the June 25, 2013 trading price of Penseco common stock of \$37.75. However, both companies trade over the counter without significant trading volume, and trading pricing may not be reliable indications of the value of the each company as a whole. As such, Griffin's evaluation of the fairness of the Exchange Ratio to the shareholders of Penseco considered other factors, including a relative contribution analysis and assessments of the value of the consideration given by Penseco (40.8% of Penseco) versus the value being received (59.2% of Peoples), as well as other traditional valuation methodologies.

Table of Contents*Contribution Analysis*

Griffin reviewed financial information relating to Penseco and Peoples to understand the relative contribution of each company to the combined entity, compared to the *pro forma* ownership resulting from the transaction. A summary of the analysis performed using financial data as of March 31, 2013 and market data as of June 25, 2013 is as follows:

	Penseco	Peoples
Exchange Ratio	59.2%	40.8%
Market Capitalization	54%	46%
Total Assets	58%	42%
Total Net Loans	57%	43%
Total Deposits	56%	44%
Tangible Common Equity	61%	39%
Net Income to Common Shareholders (LTM)	54%	46%
Net Income to Common Shareholders (YTD)	53%	47%

Evaluation of each of the relative contribution metrics involves complex considerations and judgments concerning differences in financial and operating characteristics, other factors and other risks that could affect the actual relative contribution of each company to the combined company. Accordingly, an evaluation of the results of this analysis is subjective.

In evaluating the exchange ratio, Griffin considered the value given by Penseco to acquire Peoples based on the Penseco trading price (\$85.4 million), as well as the value of the consideration computed based on the Peoples trading price (\$107.2 million).

In connection with Griffin's evaluation of the fairness of the exchange ratio, Griffin also performed a comparable company analysis and a discounted cash flow analysis with respect to each of Penseco and Peoples, and a comparable transaction analysis with respect to Peoples.

Valuation of Peoples*Comparable Companies Analysis*

Using publicly available information, Griffin compared the financial performance and condition of Peoples to the following publicly traded banks with assets between \$500 million and \$900 million headquartered in Pennsylvania, New Jersey, and New York, excluding Long Island and the five boroughs of New York City, with returns on average assets greater than 0.50% and non-performing assets (including loans 90 days past due) less than 3.50%. Companies included in this group were:

Citizens Financial Services, Inc.	Somerset Trust Holding Company
Penns Woods Bancorp, Inc.	Mid Penn Bancorp, Inc.
Evans Bancorp, Inc.	Lyons Bancorp, Inc.
First Keystone Corporation	Norwood Financial Corp.
1 st Constitution Bancorp	Orange County Bancorp, Inc.
FNB Bancorp, Inc.	Solvay Bank Corporation
ENB Financial Corp.	DNB Financial Corporation
Embassy Bancorp, Inc.	Bancorp of New Jersey, Inc.
CCFNB Bancorp, Inc.	CB Financial Services, Inc.
Fidelity D & D Bancorp, Inc.	American Bank Incorporated
Kish Bancorp, Inc.	Emclaire Financial Corp.
Honat Bancorp, Inc.	Elmira Savings Bank

Table of Contents

To perform this analysis, Griffin used financial information as of the most recently available quarter end and market price information was as of June 25, 2013. Griffin's analysis showed the following concerning Peoples and its peers' financial condition, risk profile, valuation, and liquidity:

Performance and Risk Profiles	Peoples Peers				
	Peoples	Minimum	Mean	Median	Maximum
Total Assets (\$000)	677,782	510,915	680,778	658,757	882,950
NPA + 90 Days PD/ Assets (%)	1.86	0.00	1.41	1.39	3.08
Reserves/ NPA + 90 Days PD (%)	52.74	18.17	93.39	70.72	444.53
LTM Loan Growth (%)	1.34	(5.36)	5.18	3.13	20.71
ROAA (%)	1.38	0.62	0.99	0.95	1.65
Efficiency Ratio (%)	52.13	48.08	62.68	62.56	82.98
Net Interest Margin (%)	3.92	2.55	3.56	3.39	4.38
TCE/ TA (%)	9.93	6.18	9.13	9.06	13.40
Leverage Ratio (%)	9.42	7.10	9.64	9.44	12.97

Valuation and Liquidity	Peoples Peers				
	Peoples	Minimum	Mean	Median	Maximum
Market Cap. (\$ millions)	107.2	37.35	76.4	66.8	158.55
Price/ TBV (%)	159.31	80.41	120.60	117.92	184.91
Avg. Daily Trading Volume (1 yr.)	733	21	1,178	610	6,357

Selected Transactions Analysis

Griffin reviewed publicly available information related to selected acquisitions of banks and bank holding companies as well as thrifts and thrift holding companies nationwide with total assets between \$300 million and \$1.5 billion, having a NPA + 90 Days PD / Total Assets ratio of less than 3.5% and return on average assets for the last 12 months greater than 0.50%, that were announced between January 1, 2012 and June 25, 2013. The transactions included in the group were:

Acquirer

Heartland Financial USA, Inc.
 Merchants Bancorp
 Triumph Consolidated Cos., LLC
 Glacier Bancorp, Inc.
 CBFH, Inc.
 CNB Financial Corporation
 Lakeland Bancorp, Inc.
 Strategic Growth Bank Incorporated
 First Financial Bankshares, Inc.
 Old Florida Bancshares, Inc.
 F.N.B. Corporation
 NBT Bancorp Inc.
 Prosperity Bancshares, Inc.
 Pacific Premier Bancorp, Inc.
 Umpqua Holdings Corporation
 MidSouth Bancorp, Inc.
 American National Corporation
 Penns Woods Bancorp, Inc.
 Investors Bancorp, Inc. (MHC)
 United Financial Bancorp, Inc.
 Carlisle Bancshares, Inc.
 Provident New York Bancorp

Acquiree

Morrill Bancshares, Inc.
 CITBA Financial Corporation
 National Bancshares, Inc.
 North Cascades Bancshares, Inc.
 VB Texas, Inc.
 FC Banc Corp.
 Somerset Hills Bancorp
 New Mexico Banquest Corporation
 Orange Savings Bank, SSB
 New Traditions National Bank
 Annapolis Bancorp, Inc.
 Alliance Financial Corporation
 Coppermark Bancshares, Inc.
 First Associations Bank
 Circle Bancorp
 PSB Financial Corporation
 Western Bank
 Luzerne National Bank Corporation
 Marathon Banking Corporation
 New England Bancshares, Inc.
 Northstar Financial Corporation
 Gotham Bank of New York

Table of Contents

Transaction multiples for the transaction were derived from an assumed purchase price of \$85.4 million, or \$27.68 per Peoples share. For each transaction referred to above, Griffin derived and compared, among other things, the following implied ratios:

price per common share paid for the acquired company to tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition;

transaction premium as a percent of core deposits (core deposits exclude all deposit accounts with balances over \$100,000 and foreign deposits)

price per common share paid for the acquired company to last twelve months earnings per share of the acquired company;

The results of the analysis are set forth in the following table:

(Based on Exchange Ratio)	Peoples/ Penseco Merger	Precedent Transactions Minimum	Precedent Transactions Mean	Precedent Transactions Median	Precedent Transactions Maximum
<i>Aggregate Transaction Value to:</i>					
Tangible Book Value (%)	126.9	100.0	141.1	139.6	212.2
Franchise Premium/ Core Deposits (%)	3.9	0.1	4.9	4.1	12.4
Price/ LTM EPS (x)	9.6	11.0	16.4	17.4	23.8

No company or transaction used as a comparison in the above analysis is identical to Peoples or the transaction. Accordingly, an analysis of these results is not purely mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and of the banking environment at the time of the opinion.

Discounted Cash Flow Analysis

Griffin performed a discounted cash flow analysis to estimate a range of the present values of after-tax cash flows that Peoples could provide to equity holders through 2018 on a stand-alone basis. In performing this analysis, Griffin used Peoples earnings and growth estimates provided by Peoples, and assumed discount rates ranging from 8.0% to 12.0%. The range of values was determined by adding (1) the present value of projected cash flows to Peoples shareholders from 2014 to 2018 and (2) the present value of the terminal value of Peoples tangible book value. In calculating the terminal value of Peoples, Griffin applied multiples ranging from 120% of tangible common equity to 190% of tangible common equity. This resulted in a range of values of Peoples from \$77.9 million to \$117.8 million. The discounted cash flow present value analysis is a widely used valuation methodology that relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Peoples.

*Valuation of Penseco**Comparable Companies Analysis*

Using publicly available information, Griffin compared the financial performance and condition of Penseco to the following publicly traded banks with assets between \$800 million and \$1.5 billion headquartered in Pennsylvania, New Jersey, and New York, excluding Long Island and the five boroughs of New York City, with returns on average assets greater than 0.25% and non-performing assets (including loans 90 days past due) less than 3.00%. Companies included in this group were:

Chemung Financial Corporation
Citizens & Northern Corporation
Codorus Valley Bancorp, Inc.

Bank of Utica
Citizens Financial Services, Inc.
Penns Woods Bancorp, Inc.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

ACNB Corporation
Adirondack Trust Company
ConnectOne Bancorp, Inc.
AmeriServ Financial, Inc.
QNB Corp.

Evans Bancorp, Inc.
First Keystone Corporation
1st Constitution Bancorp
FNB Bancorp, Inc.

Table of Contents

To perform this analysis, Griffin used financial information as of the most recently available quarter and market price information was as of June 25, 2013. Griffin's analysis showed the following concerning Penseco's and its peers' financial condition, risk profile, valuation, and liquidity:

Performance and Risk Profiles	Penseco's Peers				
	Penseco	Minimum	Mean	Median	Maximum
Total Assets (\$000)	929,788	810,333	966,439	918,780	1,279,972
NPA + 90 Days PD/ Assets (%)	0.50	0.44	1.44	1.36	2.75
Reserves/ NPA + 90 Days PD (%)	152.22	27.09	77.06	62.35	249.83
LTM Loan Growth (%)	(0.16)	(6.71)	4.50	1.90	30.54
ROAA (%)	1.13	0.46	1.09	0.97	1.75
Efficiency Ratio (%)	63.43	25.74	60.58	59.84	87.15
Net Interest Margin (%)	4.05	2.60	3.70	3.81	4.38
TCE/ TA (%)	11.75	7.35	9.85	9.12	15.78
Leverage Ratio (%)	11.78	8.28	10.34	9.87	14.28

Valuation and Liquidity	Penseco's Peers				
	Penseco	Minimum	Mean	Median	Maximum
Market Cap. (\$ millions)	123.7	55.9	118.1	110.3	237.5
Price/ TBV (%)	116.61	70.98	124.20	122.43	184.91
Avg. Daily Trading Volume (1 yr.)	812	3	4,909	2,725	17,858

Selected Transactions Analysis

Griffin did not perform a selected transaction analysis in its evaluation of the value of Penseco, as there is not a change of control with respect to Penseco in the transaction. Therefore, recent acquisition transactions which contain a change of control premium in their pricing would not, in Griffin's judgment, be a relevant indicator of value for Penseco.

Discounted Cash Flow Analysis

Griffin performed a discounted cash flow analysis to estimate a range of the present values of after-tax cash flows that Penseco could provide to equity holders through 2018 on a stand-alone basis. In performing this analysis, Griffin used Penseco earnings estimates provided by Penseco and assumed discount rates ranging from 8.0% to 12.0%. The range of values was determined by adding (1) the present value of projected cash flows to Penseco shareholders from 2014 to 2018 and (2) the present value of the terminal value of Penseco's tangible book value. In calculating the terminal value of Penseco, Griffin applied multiples ranging from 115% of tangible common equity to 165% of tangible common equity. This resulted in a range of values of Penseco from \$97.6 million to \$141.4 million. The discounted cash flow present value analysis is a widely used valuation methodology that relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. The analysis did not purport to be indicative of the actual values or expected values of Penseco.

The Penseco board of directors retained Griffin as the financial adviser to Penseco regarding the merger. As part of its investment banking business, Griffin is, from time to time, engaged in the valuation of bank and bank holding company securities in connection with mergers and acquisitions, public and private placement of listed and unlisted securities, rights offerings and other forms of valuations for various purposes. As specialists in the securities of banking companies, Griffin has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, Griffin may, from time to time, purchase securities from, and sell securities to, Penseco and Peoples. As a market maker in securities Griffin may from time to time have a long or short position in, and buy or sell, debt or equity securities of institutions like and possibly including, Penseco and Peoples, for Griffin's own account and for the accounts of its customers. To the extent Griffin held any such positions, it was disclosed to Penseco and Peoples.

Pursuant to the Griffin engagement agreement, Penseco agreed to pay Griffin a non-refundable retainer fee of \$25,000 payable upon execution of the engagement letter, a \$100,000 fee payable upon the delivery of Griffin's fairness opinion, and an additional \$75,000 fee contingent on the completion of a transaction. Penseco requested the

Table of Contents

contingent portion of the fee in light of the regulatory and stockholder approvals required to complete the transaction, in particular the requirement that the transaction be approved by the affirmative vote of holders of 75 percent of the outstanding shares of Penseco common stock. In light of Griffin's qualifications and the amount of the contingent portion of the fee, the Penseco board did not believe that the contingency impacted the significance or reliability of Griffin's fairness opinion. In addition, while Cedar Hill did not issue a formal fairness opinion, the financial advice it did provide assisted the Penseco board in assessing the significance and reliability of Griffin's fairness opinion. In addition, Penseco also agreed to reimburse Griffin for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify Griffin against certain liabilities, including liabilities under the federal securities laws. During the two years preceding the date of its opinion to Penseco, Griffin has not received compensation for investment banking services from Penseco, and Griffin has not received compensation for investment banking services from Peoples.

Terms of the Merger

Effect of the Merger

Upon completion of the merger, Penseco will merge with and into Peoples. No sooner than one business day after the merger, Peoples and Penseco will use their best efforts to cause Penn Security Bank and Trust Company to merge with and into Peoples Neighborhood Bank. The articles of incorporation and the bylaws of Peoples, as amended pursuant to the merger agreement, will govern the combined company subject to the approval and adoption of certain amendments by Peoples shareholders. Peoples' resulting amended and restated articles of incorporation and bylaws are attached to this joint proxy statement/prospectus as Exhibits 4 and 5 to Annex A.

Merger Consideration

Penseco Common Stock

Shareholders of Penseco will receive 1.3636 fully paid and non-assessable shares of Peoples common stock for each share of Penseco common stock they own immediately prior to the effective time of the merger, subject to adjustment according to the terms of the merger agreement. Peoples will not issue fractional shares of common stock, and any former shareholder of Penseco that would otherwise be entitled to receive a fractional share of Peoples common stock will receive cash in an amount equal to that fraction multiplied by Peoples market share price as defined in the merger agreement. See Proposal: The Merger Terms of the Merger Exchange Procedures .

The exchange ratio will be appropriately adjusted if there is a stock dividend, stock split, reverse stock split, common stock reclassification, or other similar event regarding Peoples common stock before completion of the merger. By way of illustration, if Peoples declares and pays a stock dividend of 5% on or prior to the effective time of the merger, the exchange ratio will be adjusted upward by 5%. Under this hypothetical, Penseco shareholders entitled to receive Peoples common stock pursuant to the merger agreement would receive 1.4318 shares of Peoples common stock, adjusted up from 1.3636 shares, for each share of Penseco common stock they owned immediately prior to the effective time of the merger.

Peoples will not issue fractional shares of its common stock in connection with the merger. Each holder of Penseco common stock who otherwise would have been entitled to a fraction of a share of Peoples common stock will receive cash in lieu of the fractional share of Peoples common stock (without interest) in an amount calculated pursuant to the merger agreement. The merger agreement calculates the cash amount by multiplying the fractional share to which the holder would otherwise be entitled (after taking into account all shares of Penseco common stock owned by the holder at the effective time of the merger) by the numeric average of the daily high bid and low ask quotations for a share of Peoples common stock as reported on the OTCQB market place maintained by OTC Markets Group Inc. for each of the consecutive 20 trading days ending on and including the tenth day prior to the effective time of the merger. If no bid or ask quotations are available for any date, then the average closing price of a share of Peoples common stock will be the price of the last reported trade.

Table of Contents

Peoples Common Stock and Stock Options

Each share of Peoples common stock and each option to purchase a share of Peoples common stock outstanding immediately prior to completion of the merger will remain outstanding after the merger.

Exchange Procedures

Peoples and Penseco expect to designate Registrar and Transfer Company, Cranford, New Jersey, to act as their exchange agent in connection with the exchange procedures for converting shares of Penseco common stock into the merger consideration. At or prior to the effective time of the merger, Peoples will deposit the merger consideration with the exchange agent for delivery to the Penseco shareholders in accordance with the merger agreement.

As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each Penseco shareholder a letter of transmittal with instructions for submitting his or her Penseco stock certificates (or evidence of book-entry shares) in exchange for Peoples common stock and any cash in lieu of fractional shares. At that time, those Penseco shareholders will need to carefully review the instructions, complete the materials enclosed with the instructions, and return the materials along with their Penseco stock certificates (or evidence of book-entry shares). After receipt of the properly completed letter of transmittal and Penseco stock certificates (or evidence of book-entry shares), a holder of Penseco common stock will be entitled to receive the whole number of shares of Peoples common stock and a check representing cash payment in lieu of any fractional shares.

Shares of Peoples common stock will be issued after the effective time of the merger and will entitle the holders to dividends and any other distributions to which all holders of Peoples common stock are entitled. Until the letter of transmittal is submitted and the Penseco common stock is surrendered for exchange after completion of the merger, holders will not receive any stock consideration, dividends, or distributions on any Peoples common stock into which shares of their Penseco common stock have been converted. When the letter of transmittal is submitted and the Penseco common stock is surrendered, Peoples will pay any accrued or unpaid dividends or other distributions on such Peoples common stock without interest.

Following the effective time of the merger and until surrendered, all outstanding Penseco common stock is evidence solely of the right to receive the merger consideration. In no event will Peoples, Penseco or the exchange agent be liable to any former Penseco shareholder for any amount paid in good faith to a public official pursuant to any applicable abandoned property, escheat, or similar law.

Penseco shareholders are urged to carefully read the information set forth under the caption *Proposal: The Merger* *Material U.S. Federal Income Tax Consequences* and to consult their tax advisors for a full understanding of the merger's tax consequences to them.

Effective time

Subject to the provisions of the merger agreement, the articles of merger shall be duly prepared, executed and delivered for filing with the Pennsylvania Department of State on the closing date of the merger. The merger shall become effective at such time, on such date, as the articles of merger are filed with the Pennsylvania Department of State, or at such date and time as may be specified in the articles of merger. See *Proposal: The Merger* *Terms of the Merger* *Conditions to the Merger* and *Proposal: The Merger* *Terms of the Merger* *Regulatory Approvals* .

Representations and Warranties

The merger agreement contains customary representations and warranties relating to, among other things, the following:

Organization of Peoples and Penseco and their respective subsidiaries;

Capital structures of Peoples and Penseco;

Table of Contents

Due authorization, execution, delivery, performance, and enforceability of the merger agreement;

Receipt of consents or approvals of governmental entities or third parties necessary to complete the merger;

Preparation of regulatory reports and financial statements consistent with generally accepted accounting principles;

Filing of tax returns and payment of taxes;

Absence of a material adverse effect (as defined in the merger agreement) since December 31, 2012, for either Peoples or Penseco;

Material contracts;

Quality of title to assets and properties;

Maintenance of adequate insurance;

Absence of undisclosed material pending or threatened litigation

Compliance with applicable laws and regulations;

Employee and employee benefit plans;

Brokers, finders and financial advisors;

Environmental matters;

Allowance for loan losses;

Absence of certain related party transactions;

Validity and binding nature of loans reflected as assets in the financial statements of Peoples and Penseco;

Accuracy and compliance of information contained in documents filed with the SEC and other federal or state regulatory authorities and the timeliness of the filings;

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

Peoples, Peoples Neighborhood Bank, Penseco, and Penn Security Bank and Trust Company being well capitalized within the meaning of the Federal Reserve Board, FDIC, and Pennsylvania Department of Banking and Securities regulations, as applicable;

Quality of investment securities;

Absence of certain equity plans and agreements granting equity securities in Penseco and Peoples or their subsidiaries or granting options or warrants for Penseco and Peoples or their subsidiaries;

Fiduciary accounts;

Receipt of a fairness opinion from Peoples and Penseco's financial advisors;

Intellectual property;

State anti-takeover laws; and

Quality of representations.

Conduct of Business Pending Merger

In the merger agreement, Peoples and Penseco each agreed to use their best efforts to preserve their business organizations intact, to maintain good relationships with employees, and to preserve the goodwill of customers and others with whom they do business. In addition, they agreed to conduct their business and to engage in transactions only in the ordinary course of business consistent with past practice and policies, except as otherwise required by the merger agreement.

Table of Contents

Peoples and Penseco also agreed in the merger agreement that they will not do any of the following and will not permit any of their subsidiaries to do any of the following, except as contemplated by the merger agreement or as consented to by the other party:

Amend or change any provision of its articles of incorporation or bylaws;

Change the number of authorized or issued shares of Peoples and Penseco capital stock or issue any shares except that Peoples may issue shares of Peoples common stock upon the valid exercise of presently outstanding options to acquire Peoples common stock;

Issue or grant any option (except in accordance with past practice under their benefit plans), warrant, call, commitment, subscription, right or agreement of any character relating to their authorized or issued capital stock or any securities convertible into shares of such stock, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of capital stock, except in accordance with past practice. Provided however, Peoples and Penseco in accordance with applicable law may continue to pay regular quarterly cash dividends of \$0.23 per share and \$0.42 per share, respectively in accordance and consistent with past practice;

Grant any severance or termination pay to, or, enter into any new or amend any existing employment agreement with any employee, officer, or director, except in accordance with applicable law;

Increase the compensation of, any employee, officer or director except that (A) Peoples and Penseco may pay salary increases consistent with past practice in such amounts not in excess of five percent (5%) in the aggregate for all employees, officers and directors, (B) Peoples and Penseco may pay retention bonuses in an aggregate amount not to exceed \$250,000 to such employees whose services are desired in connection with transition activities, and (C) Peoples and Penseco may pay their annual bonuses prior to closing in accordance with their customary and normal practices, but in no event to exceed the aggregate and individual amounts paid for the year 2012 by seven percent (7%);

Merge or consolidate any subsidiary with any other corporation; sell or lease all or any substantial portion of its assets or business;

Make any acquisition of all or any substantial portion of the business or assets of any other person, firm, association, corporation or business organization other than in connection with the collection of any loan or credit arrangement;

Enter into a purchase and assumption transaction with respect to deposits and liabilities;

Permit the revocation or surrender by any subsidiary of its certificate of authority to maintain, or file an application for the relocation of, any existing branch office;

Sell or otherwise dispose of any capital stock;

Make any sale, assignment, transfer, pledge, hypothecation or other disposition of, or incurrence of any lien with respect to, any assets having a book or market value, in excess of \$100,000, other than pledges of assets to secure Federal Home Loan Bank advances, customer repurchase agreements, or government deposits, sales of assets received in satisfaction of debts previously contracted in the normal course of business, or sale of any security for its investment portfolio, in each case, in the ordinary course of

business and consistent with past practice;

Take any action which would result in any of its representations and warranties set forth in the merger agreement becoming untrue, or in any of the conditions to close not being satisfied, except in each case as may be required by applicable law;

Change any method, practice or principle of accounting or tax accounting, except as may be required from time to time by GAAP or any governmental entity;

Waive, release, grant or transfer any rights of value or modify or change in any material respect any existing material agreement to which it or any subsidiary is a party, other than in the ordinary course of business consistent with past practice;

Table of Contents

Implement any new pension, retirement, profit sharing, bonus, welfare benefit or similar plan or arrangement, or, materially amend any existing plan or arrangement, except in accordance with applicable law;

Purchase any security for its investment portfolio other than in the ordinary course of business and consistent with past practice;

Amend or otherwise modify the underwriting and other lending guidelines and policies or otherwise fail to conduct its lending activities in the ordinary course of business consistent with past practice;

Enter into, renew, extend or modify any other transaction with any affiliate, except in the ordinary course of business and which are in compliance with the requirements of applicable laws and regulations;

Change deposit or loan rates other than in the ordinary course of business consistent with past practice;

Enter into any interest rate swap, floor or cap or similar commitment, agreement or arrangement, except in the ordinary course of business consistent with past practice;

Take any action that would give rise to a right of a continuing payment to any individual under any agreement;

Take any action or knowingly fail to take any action, which action or failure to act could reasonably be expected to preclude the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code; or

Make, change or revoke any material tax election or enter into any material agreement or arrangement with respect to taxes. Peoples and Pensco each also agree to:

Provide the other with reasonable access to its properties, assets, books, and records, personnel subject to certain confidentiality provisions and limitations;

Prepare and provide accurate information for this proxy statement/prospectus and various regulatory filings, including the registration statement filed with the Securities and Exchange Commission by Peoples covering the securities to be issued in this merger;

Cooperate with each other and use their reasonable best efforts to promptly obtain and comply with all governmental approvals required for the merger, provided that such efforts do not require it to take any action that would reasonably be expected to have a material adverse effect, as defined in the merger agreement;

Use their reasonable best efforts to take all action necessary or desirable to permit completion of the merger as soon as practicable;

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

Not to take, or cause, or to the best of its ability permit to be taken, any action that would substantially impair the prospects of completing the merger;

Advise the other of any change or event having a material adverse effect on it (as defined in the merger agreement) or which it believes would or would be reasonably likely to cause or constitute a material breach of any of its representations, warranties, or covenants set forth in the merger agreement;

Cause one or more of its designated representatives to confer on a weekly or such other basis as mutually determined, regarding their financial condition, operations and business and matters relating to the completion of the transactions contemplated by the merger agreement;

Provide each other a copy of the minutes of any meeting of the board of directors or any subsidiary or committee;

Provide to the other a consolidated balance sheet and statement of operations for the each month, quarter, and for fiscal year;

Provide to the other party, investment, loan, deposit and borrowing information, in account and deposit level detail;

Table of Contents

Provide to the other party a written list of (i) all loans classified by it or any regulatory authority as Other Loans Specially Mentioned, Special Mention, Substandard, Doubtful, Loss, Classified, Criticized, Watch List, or any other classification import (ii) all commercial and mortgage loans classified as non-accrual, and (iii) all commercial loans classified as in substance foreclosed;

Permit the other, at its own expense, to cause a Phase I Environmental Audit to be performed at any physical location owned or occupied by the other party or any of its subsidiaries;

Take all action necessary to properly call, convene and hold a special meeting of its shareholders to consider and vote upon a proposal to approve and adopt the merger agreement and the transactions contemplated thereby, and in the case of Peoples, approve and adopt the amended and restated articles of incorporation;

Recommend that its shareholders approve and adopt the merger agreement and the transactions contemplated thereby and in the case of Peoples the amendment and restatement of the articles of incorporation and not withdraw, modify or change in any manner adverse to the other party hereto such favorable recommendation. However, either Pensco or Peoples may withdraw, modify or qualify such recommendation if it determines, in good faith after consultation with its legal and financial advisers, that the failure to do so may constitute a breach of its fiduciary duties;

Cooperate in the preparation and distribution of any press release related to the merger agreement and the transactions contemplated thereby, and any other public disclosures. However, nothing shall prohibit either party from making any disclosure which its counsel deems necessary under applicable law, or either party from making any disclosure necessary to fulfill its obligations under the Securities Exchange Act of 1934, as amended;

Maintain, and cause its subsidiaries to maintain, insurance in such amounts as are reasonable to cover such risks as are customary in relation to the character and location of its properties and the nature of its business;

Maintain, and cause its subsidiaries to maintain, books of account and records in accordance with GAAP applied on a basis consistent with those principles used in preparing the financial statements heretofore delivered in accordance with the merger agreement; and

Timely file all federal, state, and local tax returns required to be filed by it or its respective subsidiaries and timely pay all taxes due, and terminate all tax sharing agreements or arrangements among it and its subsidiaries as of the effective time of the merger.

Indemnification and Insurance

Peoples and Pensco agree to cooperate and use their best efforts to indemnify certain individuals to the extent permitted by Pennsylvania law and their respective articles of incorporation and bylaws. Whether asserted or arising before or after the effective time of the merger, Peoples and Pensco will indemnify former and current directors and officers of Peoples and Pensco and their respective subsidiaries as well as those who become directors and officers of Peoples or Pensco or their respective subsidiaries prior to the effective time of the merger. Indemnification rights will be triggered if an eligible officer or director is made part of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, based in whole or in part on, or arising in whole or in part out of, or pertaining to:

- (1) The fact that the person is or was a director, officer, or employee of Peoples or Pensco, any of their respective subsidiaries, or any of their respective predecessors; or

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

(2) The merger agreement or any of the transactions contemplated thereby.

On or after the effective time of the merger, Peoples will indemnify, defend, and hold harmless all prior and then-existing directors, officers and employees of Peoples, Pensco and their respective subsidiaries against:

(1) All losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement (with the prior approval of Peoples) of or in connection with any claim, action, suit,

Table of Contents

proceeding or investigation based in whole or in part on, or arising in whole or in part out of, the fact that the person is or was a director, officer, or employee of Peoples, Penseco or their respective subsidiaries, whether pertaining to any matter existing or occurring at or prior to the effective time of the merger and whether asserted or claimed prior to, or at or after, the effective time of the merger; and

- (2) All of the indemnified liabilities identified in paragraph (1) immediately above based in whole or in part on, or arising in whole or in part out of, or pertaining to the merger agreement or the transactions contemplated thereby, to the same extent as an officer, director, or employee may be indemnified by Peoples or its subsidiaries, as the case may be, as of June 28, 2013.

The above indemnification rights include the right to advancement of expenses; however, no officer, director, or employee may be indemnified by Peoples if indemnification is prohibited by applicable law.

For six (6) years after the effective time of the merger, subject to certain limitations, Peoples will maintain a directors and officers liability insurance policy providing coverage amounts not less than the coverage amounts provided under the Penseco directors and officers liability insurance policy, on terms generally no less favorable and covering persons who are currently covered by the Penseco insurance policies.

No Solicitations of Other Transactions

So long as the merger agreement remains in effect, Penseco and Peoples shall not and shall not authorize or permit any of their directors, officers, employees or agents, to directly or indirectly:

- (1) solicit, initiate or encourage any inquiries relating to, or the making of any proposal which relates to, an acquisition proposal (as defined in the merger agreement);
- (2) recommend or endorse an acquisition proposal;
- (3) participate in any discussions or negotiations regarding an acquisition proposal;
- (4) provide any third party with any nonpublic information in connection with any acquisition proposal; or
- (5) enter into an agreement with any other party with respect to an acquisition proposal.

Penseco and Peoples will notify each other if any inquiries or proposals relating to an acquisition proposal are received or any such negotiations or discussions are sought to be initiated or continued.

Notwithstanding the foregoing, the board of directors of Penseco or Peoples may respond to, in a manner it deems appropriate, recommend or endorse, participate in any discussions, provide any third party with nonpublic information, or enter into an agreement regarding, unsolicited inquiries relating to an acquisition proposal, in each case, if the respective board of directors shall have determined, in good faith after consultation with its legal and financial advisors, that the failure to do so may constitute a breach of their fiduciary duties. Nothing contained in the merger agreement shall prevent Penseco and Peoples, and their respective boards of directors, from complying with Rule 14d-9 and Rule 14e-2 under the Securities Exchange Act of 1934, as amended, with respect to an acquisition proposal; provided, that such rules will in no way eliminate or modify the effect that any action pursuant to such rules would otherwise have under the merger agreement.

Dividends and Authorization to Pay Dividends

Prior to the effective time of the merger, Penseco and Peoples will coordinate the declaration, payment and record dates of any regular quarterly dividends so that holders of Penseco common stock do not receive two dividends, or fail to receive one dividend, for any quarter.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

For five (5) years after the effective time of the merger, Peoples will continue to pay a quarterly cash dividend in an amount no less than \$0.31 per share, provided sufficient funds are legally available and that Peoples and Peoples Security Bank and Trust Company remain well-capitalized in accordance with applicable regulatory guidelines, unless the board of directors of Peoples determines otherwise in accordance with its fiduciary duties upon the approval of at least 80% of the directors.

Table of Contents

Corporate and Bank Name Following Merger

For three years after the merger, Peoples will not change the corporate name from Peoples Financial Services Corp. unless the board of directors of Peoples shall determine otherwise upon approval of at least 80% of the directors.

For three (3) years after the effective time of the merger, the surviving bank will be named Peoples Security Bank and Trust Company and will not change its name unless the board of directors of Peoples and the bank determine otherwise upon approval of at least 80% of the directors of each entity.

Nasdaq or NYSE Listing

Peoples and Pensco will use their commercially reasonable best efforts to list Peoples common stock on the Nasdaq Global Market or New York Stock Exchange at or as soon as reasonably practical after the effective time of the merger, unless the board of directors of Peoples determines otherwise upon the approval of at least 80% of the directors.

Headquarters and Operations Locations

For three (3) years after the effective time of the merger:

- (1) the headquarters of Peoples and Peoples Security Bank and Trust Company will be located in Scranton, Pennsylvania;
- (2) the deposit operations and data processing of Peoples and Peoples Security Bank and Trust Company will be located in Hallstead, Pennsylvania; and
- (3) the loan operations of Peoples and Peoples Security Bank and Trust Company will be located in Scranton, Pennsylvania; unless the board of directors of Peoples and Peoples Security Bank and Trust Company determine otherwise upon the approval of at least 80% of the directors of each entity.

Dividend Reinvestment Plan

Prior to the effective time of the merger, Pensco will suspend the acceptance of dividends and other contributions of participants in its dividend reinvestment plan, terminate the dividend reinvestment plan and distribute all shares of Pensco common stock and the value of all cash held in participant's plan accounts in accordance with the terms of the dividend reinvestment plan. Prior to the effective time of the merger, Peoples will suspend the acceptance of dividends and other contributions of participants in its dividend reinvestment plan until the effective time of the merger.

Conditions to Merger

Peoples and Pensco's obligations to complete the merger are subject to the satisfaction of various conditions at or prior to the closing date of the merger, including the following:

Peoples and Pensco's shareholders must approve and adopt the merger agreement and Peoples' shareholders must approve the amendment and restatement of the articles of incorporation;

The representations and warranties of each party to the merger agreement must be true and correct as of June 28, 2013, and as of the closing date of the merger except as to any representation or warranty where the breach would not constitute a material adverse effect (as defined in the merger agreement) on Peoples or Pensco;

All obligations required to be performed by each party under the merger agreement have been performed in all material respects at or prior to the closing date of the merger;

Table of Contents

All requisite approvals and consents must be obtained and any related regulatory waiting periods must have expired;

There must be no order, decree, or injunction in effect preventing the completion of the transactions contemplated by the merger agreement, and no statute, rule, regulation, order, injunction or decree which prohibits or makes illegal the completion the merger;

The registration statement must be effective and any required approvals of state securities agencies must have been obtained;

Opinions from Peoples and Pensco's respective special legal counsels that the merger will be treated as a reorganization within the meaning of section 368(a) of the Internal Revenue Code have been received. See Terms of the Merger Material U.S. Federal Income Tax Consequences ;

All consents and authorizations of landlords and other third parties that are necessary to permit the merger to be consummated without the violation of any lease or other material agreement must have been received;

The holders of no more than 7% of Peoples or Pensco's respective issued and outstanding shares seek to perfect dissenters' appraisal rights; and

No change in the business, property, assets (including loan portfolios), liabilities (whether absolute, contingent, or otherwise), operations, business prospects, liquidity, income or financial condition of Peoples and Pensco or either's subsidiaries, which has had or would reasonably be likely to have, individually or in the aggregate, a material adverse effect (as defined in the merger agreement) must have occurred.

Under the terms of the merger agreement, a material adverse effect means any state of facts, change, circumstance, event, condition, occurrence, action, or omission that:

- (1) has or would be reasonably expected to have a material adverse effect on the business, financial condition, results of operations, or business prospects of Pensco or Peoples including but not limited to the entry by Pensco or Peoples, into a regulatory agreement, or
- (2) materially impairs the ability of such party or its subsidiary to consummate the transactions contemplated by the merger agreement on a timely basis, other than, in each case, any change, circumstance, event or effect relating to:
 - (a) changes in general economic or political conditions affecting banking institutions generally, including, but not limited to, changes in interest rates, but not if such changes disproportionately affect Pensco or Peoples when compared to other banking institutions;
 - (b) any change in GAAP or applicable law that does not disproportionately affect such party and its subsidiaries taken as a whole relative to other participants (including the other party hereto) in the industry;
 - (c) any action or omission of a party (or any of its subsidiaries) taken pursuant to the terms of the merger agreement or taken or omitted to be taken with the express written permission of the other party;

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

- (d) any effect with respect to a party hereto caused, in whole or in substantial part, by the other party;
- (e) reasonable expenses, including expenses associated with the retention of legal, financial, or other advisors, incurred by Pensco or Peoples in connection with the negotiation, execution and delivery of the merger agreement and the consummation of the transactions contemplated hereby; and
- (f) any act of terrorism, war (whether or not declared), national disaster or any national or international calamity affecting the United States that does not disproportionately affect such party and its subsidiaries, taken as a whole, relative to other participants in the industry, in the United States (including the other party hereto).

Table of Contents

Except for the requirements of Peoples and Penseco shareholder approval; regulatory approvals; and the absence of any order, decree, or injunction preventing the transactions contemplated by the merger agreement, Peoples and Penseco each may waive each of the conditions described above in the manner and to the extent described in Proposal: The Merger Terms of the Merger Amendment; Waiver .

Amendment; Waiver

Subject to applicable law, at any time prior to the consummation of the transactions contemplated by the merger agreement, Peoples and Penseco may:

- (1) amend the merger agreement;
- (2) extend the time for the performance of any of the obligations or other acts of either Peoples or Penseco;
- (3) waive any inaccuracies in the representations and warranties contained in the merger agreement or in any document delivered pursuant to the merger agreement; or
- (4) waive compliance with any of the agreements or conditions contained in the provisions of the merger agreement relating to the covenants of Peoples and Penseco between June 28, 2013, and the closing date of the merger and relating to the conditions to closing.

However, any amendment, extension or waiver granted or executed after shareholders of Penseco or Peoples have approved the merger agreement cannot modify either the amount or the form of the consideration to be provided to holders of Penseco common stock upon consummation of the merger or otherwise materially adversely affect the shareholders of Penseco or Peoples without the approval of the shareholders who would be so affected.

Termination

The merger agreement may be terminated on or at any time prior to the closing date of the merger:

- (1) by the mutual written consent of Peoples and Penseco;
- (2) by Peoples or Penseco:
 - (a) if the merger has not occurred on or before March 31, 2014, unless the failure of the merger to occur is due to the failure of the party seeking to terminate the merger agreement to perform its covenants and agreements required by the merger agreement;
 - (b) if any governmental agency issues a final unappealable administrative order which would not permit satisfaction of the conditions to the merger under the merger agreement, unless it is due to the failure of the party seeking to terminate the merger agreement to perform its covenants and agreements required by the merger agreement;
- (3) by Penseco if Peoples has, or by Peoples if Penseco has, in any material respect, breached (i) any material covenant contained in the merger agreement or (ii) any representation or warranty contained in the merger agreement, which would have a material adverse

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

effect (as defined in the merger agreement) on the nonbreaching party, and such breach has not been substantially cured by the earlier of 30 days after the written notice of the breach is given to the breaching party or the effective time of the merger unless the breach no longer causes a material adverse effect;

- (4) by either party if its shareholders did not approved the merger agreement at its special meeting unless prior to such shareholder vote, the board of directors of the party whose shareholders failed to approve the merger agreement withdrew, modified or changed in a manner adverse to the other party its approval or recommendation of the merger agreement; or
- (5) by either party, subject to certain conditions, if its board of directors shall have determined in good faith after consultation with its legal and financial advisers, taking into account, all relevant factors, that failure to agree to or endorse another acquisition proposal and terminate the merger agreement

Table of Contents

may constitute a breach of their fiduciary duties. However, the merger agreement may only be terminated after giving notice to the other party and negotiating with the other party in good faith to make adjustments to the merger agreement;

- (6) By Penseco, if at any time during the five (5) business day period commencing with the determination date (the later date of either the date the last regulatory approval is obtained or the date of the Peoples special meeting of shareholders), if both of the following conditions are satisfied:
- (a) the average daily high bid and low ask quotations for Peoples common stock as reported on the OTCQB market place for 20 consecutive trading days ending on and including the 10th day prior to the determination date shall be less than \$26.175; and
 - (b) (A) the number obtained by dividing the average daily high bid and low ask quotations for Peoples common stock as reported on the OTCQB market place for 20 consecutive trading days ending on and including the 10th day prior to the determination date is less than (B) the number obtained by dividing closing price of the Nasdaq Bank Index as of the determination date by the closing price of the Nasdaq Bank Index as of June 28, 2013, minus 0.25.

If the merger is terminated pursuant the merger agreement, the merger agreement will be void except for provisions relating to the confidentiality of information furnished to either Peoples or Penseco during the course of the merger and provisions relating to the expenses associated with the merger. There will be no further liability on the part of Peoples or Penseco to the other, except for any liability arising out of any uncured willful material breach of any covenant or other agreement contained in the merger agreement or any fraudulent breach of a representation or warranty.

Expenses

Except as described below, each party will bear and pay all costs and expenses incurred by it in connection with the transactions contemplated by the merger agreement, including fees and expenses of its own financial consultants, accountants and counsel.

However, if the merger agreement is terminated as a result of any breach of a representation, warranty, covenant, or other agreement of Peoples or Penseco, the non-terminating party will be liable to the other for actual out-of-pocket costs and expenses, including the reasonable fees and expenses of financial consultants, accountants, and legal counsel, incurred by the other party up to a maximum amount of \$600,000. The payment of expenses will be the exclusive remedy and upon delivery of such payment, the non-terminating party will have no further obligations to the terminating party pursuant to the merger agreement.

Termination Fee

If either party fails to complete the merger after the occurrence of one of the following events, and the other party is not in material breach of the merger agreement, the party failing to complete the merger will pay the other party a fee of \$3,700,000:

- (1) a party concludes in good faith, after consultation with its legal and financial advisers, that it must agree to or endorse an acquisition proposal (as defined in the merger agreement) and terminate the merger agreement in order to comply with its fiduciary responsibilities;
- (2) another person enters into an agreement, letter of intent, or memorandum of understanding with a party which relates to an acquisition proposal;
- (3) a party authorizes, recommends or publicly proposes, or publicly announces an intention to authorize, recommend, or propose an agreement to enter into an acquisition proposal;

- (4) a party's shareholders fail to approve the merger agreement, or the special meeting of shareholders is cancelled, if prior to the shareholder vote or cancellation:

Table of Contents

- (a) a party recommends that its shareholders approve or accept an acquisition proposal with any other person; or

- (b) a party fails to call, give notice of, convene and hold a special meeting of shareholders; or

- (5) a party's shareholders fail to approve the merger agreement or the special meeting of shareholders is cancelled, if prior to the shareholder vote or cancellation any person, publicly announces its intention to make an acquisition proposal of that party and has not publicly withdrawn the announcement at least thirty (30) days prior to the meeting of shareholders and within twelve (12) months after such event the party enters into any term sheet, letter of intent, agreement or similar type agreement with such person which relates to an acquisition proposal; or

Regulatory Approvals

Completion of the transaction is subject to the prior receipt of all consents or approvals of federal and state regulatory authorities required to complete the merger of Peoples and Penseco. As of the date of this joint proxy statement/prospectus, appropriate applications for approval have been filed with the appropriate regulatory authorities. Peoples and Penseco have agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the transaction. Approvals must be obtained from the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation, the primary federal regulator of state-chartered banks that are not members of the Federal Reserve System; and from the Pennsylvania Department of Banking and Securities, the primary regulator of Pennsylvania-chartered deposit-taking institutions. The merger cannot proceed in the absence of the required regulatory approvals. On October 7, 2013, Peoples received approval from the Federal Reserve Bank of Philadelphia, acting on delegated authority of the Federal Reserve Board, of its application to merge with Penseco.

Management After the Merger

At the effective time of the merger, the total number of persons serving on the board of directors of Peoples and Peoples Security Bank and Trust Company shall be increased to fourteen (14). Six (6) of the fourteen (14) persons to serve initially on the board of directors of Peoples at the effective time of the merger will be appointed by the Peoples board of directors and eight (8) of the fourteen (14) persons will be appointed by the Penseco board of directors from among the current directors of Peoples and Penseco, respectively, who, except for executive officers, are independent directors as determined in accordance with Nasdaq Stock Market Marketplace Rules or the New York Stock Exchange Listed Company Manual, as applicable, and who meet the eligibility requirements under the Peoples bylaws, as amended. The directors from each of Peoples and Penseco shall be evenly distributed as close as possible among the three (3) classes of Peoples with two (2) classes having five (5) directors and one (1) class having four (4) directors each to serve until their successors are duly elected and qualified in accordance with applicable law, the articles of incorporation, and the bylaws of Peoples, as amended.

For each of the 2014, 2015 and 2016 annual meetings of shareholders of Peoples, director nominees shall be selected, or recommended for the board of directors' selection, by a nominating committee comprised solely of independent directors. During this three year period, director nominees will be selected and nominated as follows: With respect to each directorship held by an incumbent director formerly affiliated with Penseco, as sub-committee of the nominating committee composed entirely of former Penseco directors will select a director nominee who, except for executive officers, will be an independent director (as determined in accordance with Nasdaq rules) and will satisfy the eligibility requirements set forth in Peoples bylaws. With respect to each directorship held by an incumbent director formerly affiliated with Peoples prior to the merger, as sub-committee of the nominating committee composed entirely of former directors who serve on the Peoples board of directors prior to the merger will select a director nominee who, except for executive officers, will be an independent director (as determined in accordance with Nasdaq or NYSE rules) and will satisfy the eligibility requirements set forth in Peoples bylaws. This procedure for director nominations may be modified by a vote of at least 80% of the Peoples board of directors following the merger.

Table of Contents

For three (3) years immediately following the effective time of the merger, directors formerly of Peoples and Pensco will have pro rata representation on all committees of Peoples and its subsidiaries based upon the representative number of directors of each party on the board of directors as described above, unless the board of directors of Peoples, will determine otherwise upon the approval of at least 80% of the board of directors of Peoples.

William E. Aubrey, II will be the Chairman of the Board of Peoples and, provided Mr. Aubrey remains a member of the board of directors of Peoples, Peoples board of directors will continue to elect Mr. Aubrey at each organizational meeting of directors as Chairman until the 2017 Annual Meeting of Shareholders of Peoples unless the board of directors of Peoples shall determine otherwise upon the approval of at least 80% of the board of directors. On the effective time of the merger, the following shall be among the executive officers of Peoples:

(A) Craig W. Best President and Chief Executive Officer

(B) Scott A. Seasock Chief Financial Officer

(C) Debra E. Dissinger Chief Operating Officer

For more information, see Proposal: The Merger Interests of Directors, Officers, and Others in the Merger .

Employment; Severance

Peoples will use its best efforts to continue the employment of all current employees in positions that will contribute to the successful performance of the combined organization. Subject to execution of a customary form of release, Peoples agrees to provide severance pay to any full-time, active employee of Peoples Security Bank and Trust Company whose employment is terminated within one (1) year after the effective time as a result of the merger.

The severance pay will be made if (1) the employee's position is eliminated or (2) the employee is not offered comparable employment (i.e., a position of generally similar job description, responsibilities, and pay and where the employee is not required to commute more than thirty (30) miles more than the employee's present commute). Peoples will not pay severance pay to any employee (1) who is being paid under an existing employment or change in control agreement, (2) whose employment is terminated for cause, or (3) who voluntarily leaves employment prior to the effective time of the merger.

The severance pay will be equal two (2) weeks' pay for each full year of continuous service with a minimum severance benefit of four (4) weeks' pay and a maximum severance benefit of twenty-six (26) weeks' pay. Terminated employees will have the right to continue coverage under COBRA. During the severance payment term or until the employee is enrolled in another health plan, whichever occurs first, Peoples Security Bank and Trust Company will continue to pay the employer's share of medical benefits, provided that COBRA coverage shall run concurrently with the period that Peoples or its subsidiaries pay the employer's share of health coverage. Employees are not third party beneficiaries of these commitments.

Employee Benefits

Peoples and Pensco shall, before or promptly after the effective time of the merger, review all benefit plans of Penn Security Bank and Trust Company and Peoples Neighborhood Bank in order to establish the benefit plans to be made available to employees after the effective time of the merger. Peoples will:

- (1) provide its employees credit for all years of service with Peoples or Pensco or any of their subsidiaries and predecessors for the purpose of eligibility and vesting and provide employees credit for all years of service for benefit accrual for the Pensco or Peoples benefit plans;

- (2) cause any and all pre-existing condition limitations and eligibility waiting periods under group health plans to be waived with respect to their employees who remain as employees of Peoples or its subsidiaries (and their eligible dependents); and

Table of Contents

- (3) cause to be credited any deductibles incurred by employees and their beneficiaries and dependents during the portion of the calendar year prior to their participation in the new benefit plans.

Peoples and Penseco and their subsidiaries agree to honor all vested or accrued benefit obligations to, and contractual rights of their current and former employees, including any benefits or rights arising as a result of the transactions contemplated by the merger agreement (either alone or in combination with any other event). In order to accomplish the foregoing, Peoples or its subsidiary and Penseco or its subsidiary may amend, freeze, merge or terminate any benefit plan of Peoples Neighborhood Bank, Peoples, Penseco, or Penn Security Bank and Trust Company, respectively.

Interests of Directors, Officers, and Others in the Merger

Certain members of Peoples and Penseco's management and board of directors may have interests in the transaction in addition to their interests as Peoples or Penseco shareholders, respectively. The Peoples and Penseco boards of directors were aware of these factors and considered them, among other matters in approving the merger agreement.

Share Ownership

As of September 27, 2013, the record date for the special meetings of Peoples and Penseco shareholders:

1. The directors and executive officers of Peoples may be deemed to be the beneficial owners of 222,791 shares, representing 7.21% of the outstanding shares of Peoples common stock.
2. The directors and executive officers of Penseco may be deemed to be the beneficial owners of 413,701 shares, representing 12.6% of the outstanding shares of Penseco common stock.
3. Peoples and the directors and executive officers of Peoples may be deemed to be the beneficial owners of 10,513 shares, representing 0.32% of the outstanding shares of Penseco common stock.

Shares of Penseco common stock held by Peoples will be cancelled as of the effective time of the merger.

Board Positions and Compensation

Upon completion of the merger, six (6) of the fourteen (14) persons to serve initially on the board of directors of Peoples at the effective time shall be appointed by the Peoples board of directors and eight (8) of the fourteen (14) persons shall be appointed by the Penseco board of directors. Each person who serves as a director of Peoples will be compensated in accordance with the policies of Peoples.

The following directors of Peoples are expected to continue as directors of Peoples on the effective time of the transaction: William E. Aubrey II, Ronald G. Kukuchka, Richard S. Lochen, Jr., George H. Stover, Jr., Earle A. Wootton, and Joseph T. Wright, Jr. The following directors of Penseco are expected to become directors of Peoples on the effective time of the transaction: Craig W. Best, Joseph G. Cesare, James G. Keisling, P. Frank Kozik, Robert W. Naismith, James B. Nicholas, Emily S. Perry, and Steven L. Weinberger.

For more information, see Proposal The Merger Terms of the Merger Management After the Merger.

Management Positions

On the effective time of the merger, the following persons are expected to be the executive officers of Peoples:

Craig W. Best President and Chief Executive Officer

Scott A. Seasock Chief Financial Officer

Table of Contents

Debra E. Dissinger Chief Operating Officer

Michael L. Jake Chief Risk Officer

Thomas P. Tulaney Chief Lending Officer

Greg D. Misterman Chief Credit Officer

Lynn M. Peters Thiel Chief Retail Officer South

Joseph M. Ferretti Co-Chief Lending Officer North

Each executive officer of Peoples shall hold office until his or her successor is appointed and qualified or otherwise in accordance with applicable law, the articles of incorporation, and the bylaws of Peoples, and such person's respective employment agreement.

Severance Agreements/Payments

Messrs. Dakey, Seasock, and Ferretti are parties to respective supplemental executive retirement plans pursuant to which Peoples Neighborhood Bank shall pay each the actuarially equivalent to his retirement benefit under the plan within ten days of a change in control. Mr. Joseph M. Ferretti will be offered a new employment agreement which will provide for a retention bonus. Mr. Dakey's whose employment will be terminated and, in connection therewith, he will receive a lump sum amount equal to 2.99 times his base amount as defined by Internal Revenue Code Section 280G(b)(3) pursuant to his employment agreement.

The Peoples directors will become fully vested, if not already, in the Peoples Director Retirement Plan.

Consulting Agreement

Alan Dakey is expected to enter into a consulting agreement wherein he will assist with the integration of Penn Security Bank and Trust Company into Peoples Neighborhood Bank for a six month period following the merger for which he will be paid \$95,000.

Summary of Peoples Golden Parachute Arrangements

The following table sets forth the aggregate dollar value of the various elements of compensation that each named executive officer of Peoples and Pensco would receive that is based on or otherwise relates to the merger, assuming the following:

the merger closed on June 30, 2013, the last practicable date prior to the date of these materials, and

Messrs. Scott A. Seasock, Debra E. Dissinger, and Joseph M. Ferretti remain in the employ of Peoples post closing. Any changes in these assumptions or estimates would affect the amounts shown in the following table.

Golden Parachute Compensation for the Named Executive Officers of Peoples Financial Services Corp.

Name	Tax Reimbursements
------	-----------------------

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

	Cash (\$ (1))	Equity (\$)	Pension/ NQDC (\$ (2))	Perquisites/ Benefits (\$ (3))	(\$)	Other (\$ (4))	Total (\$)
Alan W.Dakey	425,367		227,915	15,138			668,420
Scott A. Seasock			151,943				151,943
Debra E. Dissinger			213,174				213,174
Joseph M. Ferretti			227,915			153,622	381,537

(1) The amounts listed in this column represent the double trigger change in control severance payments which may be made under the named executive officer's respective employment agreements. The payments

Table of Contents

will only be made to each respective named executive officer (i) should the named executive officer terminate employment after a change in control for good reason (as defined in the employment agreement) provided that within one hundred twenty days of the good reason occurrence the executive provides Peoples with thirty (30) days notice to cure and Peoples fails to cure the occurrence or (ii) the named executive officer is terminated without cause (as defined in the employment agreement). The employment agreements contain gross-down provisions.

- (2) The named executive officers' benefits under their supplemental executive retirement plans will fully vest upon a change in control. This is considered a single-trigger arrangement. The amount listed in this column sets forth the amount which Messrs. Dakey, Seasock, and Ferretti will receive within ten days of the change in control. Of the \$227,915, Mr. Dakey will receive \$50,198 was previously vested; of the \$151,943, Mr. Seasock will receive \$5,880 was previously vested; of the \$227,915, Mr. Ferretti will receive \$7,483 was previously vested. The amount listed in this column for Ms. Dissinger represents the present value of Ms. Dissinger's benefit of \$20,000 per year for 15 years beginning after she reaches age 65. Of the \$213,174, \$91,206 was previously vested.
- (3) The amounts listed in this column represent the approximate costs of providing health care benefits to the named executive officer under the respective employment agreement assuming that that named executive officer was involuntarily terminated without cause or the executive terminated employment for good reason. The amounts listed were determined using the assumptions used for financial reporting purposes under generally accepted accounting principles. The payments under this column are considered double-trigger payments.
- (4) Under the agreement which will be provided to Mr. Ferretti, he will be offered a retention bonus equal to \$153,622 payable over three years.

Employment Agreements

Pursuant to Mr. Dakey's employment agreement, in the event that after a change in control he is terminated without cause or terminates his employment for good reason as hereinafter defined, he will be entitled to a lump sum amount equal to 2.99 times his base amount as defined by Internal Revenue Code Section 280G(b)(3). Good reason is defined as a reduction in title or a reduction in responsibilities or authority or assignment of duties inconsistent with his position; a reassignment which requires the named executive officer to move his principal residence; any removal of the named executive officer from office or any adverse change in the terms and conditions of his employment except for a termination for cause as defined in the employment agreement; any reduction in his annual base salary; any failure of Peoples to provide him with benefits at least as favorable as those enjoyed under the pension, life insurance, medical, health, accident, disability or Peoples other employee benefit plans unless such reduction is part of a reduction for all employees; material change in the legal relationship between Peoples and Peoples Neighborhood Bank; or any material breach of the employment agreement by Peoples or Peoples Neighborhood Bank. Mr. Dakey would also be entitled to a continuation of group health insurance benefits for one year following the termination of his employment.

Pursuant to Mr. Seasock's employment agreement, in the event that after a change in control he is terminated without cause or terminates his employment for good reason as hereinafter defined, he will be entitled to a lump sum amount equal to 2.0 times his Annual Base Salary. Good reason is defined as a reduction in title or a reduction in responsibilities or authority or assignment of duties inconsistent with his position; a reassignment which requires the named executive officer to move his principal residence; any removal of the named executive officer from office or any adverse change in the terms and conditions of his employment except for a termination for cause as defined in the employment agreement; any reduction in his annual base salary; any failure of Peoples to provide him with benefits at least as favorable as those enjoyed under the pension, life insurance, medical, health, accident, disability or Peoples other employee benefit plans unless such reduction is part of a reduction for all employees; material change in the legal relationship between Peoples and Peoples Neighborhood Bank; or any material breach of the employment agreement by Peoples or Peoples Neighborhood Bank. Mr. Seasock would also be entitled to a continuation of group health insurance benefits for two years following the termination of his employment.

Table of Contents

Pursuant to Mr. Ferretti's employment agreement, in the event that after a change in control he is terminated without cause or terminates his employment for good reason as hereinafter defined, he will be entitled to a lump sum amount equal to 2.0 times his Annual Base Salary. Good reason is defined as a reduction in title or a reduction in responsibilities or authority or assignment of duties inconsistent with his position; a reassignment which requires the named executive officer to move his principal residence; any removal of the named executive officer from office or any adverse change in the terms and conditions of his employment except for a termination for cause as defined in the employment agreement; any reduction in his annual base salary; any failure of Peoples to provide him with benefits at least as favorable as those enjoyed under the pension, life insurance, medical, health, accident, disability or Peoples other employee benefit plans unless such reduction is part of a reduction for all employees; material change in the legal relationship between Peoples and Peoples Neighborhood Bank; or any material breach of the employment agreement by Peoples or Peoples Neighborhood Bank. Mr. Ferretti would also be entitled to a continuation of group health insurance benefits for one year following the termination of his employment.

Mr. Ferretti will be offered a new employment agreement which will provide for a base salary of \$175,000, a maximum bonus of twenty (20%) percent of his salary, and a supplemental executive retirement plan providing for a benefit of \$40,000 for 10 years.

Supplemental Executive Retirement Plans

Messrs. Dakey, Seasock, and Ferretti are parties to respective supplemental executive retirement plan agreements pursuant to which the bank shall pay each the actuarially equivalent of his retirement benefit under the plan within ten days of a change in control. The actuarially equivalent is defined as the equivalent value to the normal form of benefit determined under generally accepted actuarial principles. The actuarially equivalent lump sum shall be calculated using the rate used by the plan administrator for determining the accrual balance. Mr. Dakey's retirement benefit, at age 65, is \$30,000 per year payable in monthly installments for 120 months. Mr. Seasock's retirement benefit, at age 65, is \$20,000 per year payable in monthly installments for 120 months. Mr. Ferretti's retirement benefit, at age 65 is twenty percent (20%) of the average of his base salary over the three previous years.

Ms. Dissinger is a party to a supplemental executive retirement plan whereupon a change in control she shall become fully vested in her retirement benefit. She will receive \$20,000 per year for 15 years after she turns 65 years old.

Summary of Penseco Golden Parachute Arrangements

The following table sets forth the aggregate dollar value of the various elements of compensation that each of Penseco's named executive officers, as identified in the definitive proxy statement for Penseco's 2013 annual meeting of shareholders, would receive based on or otherwise related to the merger, assuming the merger closed on July 31, 2013, the last practicable date prior to the date of these materials.

Any changes in these assumptions could affect the amounts shown in the following table.

Golden Parachute Compensation for**Named Executive Officers of Penseco Financial Services Corporation**

Name	Cash (\$)	Equity (\$)	Pension/ NQDC (\$)(1)	Perquisites/ Benefits (\$)	Tax Reimbursements (\$)	Other (\$)	Total (\$)
Craig W. Best							
Patrick M. Scanlon			38,191				38,191
Thomas P. Tulaney							
Greg D. Misterman							
Lynn M. Peters Thiel							

Table of Contents

- (1) Represents the value of Mr. Scanlon's vested account balance under Penseco's executive deferred compensation plan, which will be paid to Mr. Scanlon in a single lump sum within 45 days following the merger.

Cash Severance

Messrs. Best and Tulaney, each of whom is party to an employment agreement, have provisions in their agreements that provide for certain cash severance benefits in the event of voluntary or involuntary termination following a change in control. The employment agreements will be assumed by the surviving corporation by virtue of the merger and the surviving corporation will succeed to the rights of Penseco under the employment agreements. Because immediately following the merger, a majority of the common stock of the surviving corporation will be owned by current Penseco shareholders and a majority of the board of directors of the surviving corporation will consist of current Penseco directors, the merger will not constitute a change in control under the terms of the employment agreements.

The named executive officers other than Messrs. Best and Tulaney are covered by the severance policy applicable to our employees generally. That policy provides for certain severance benefits which are based on, among other things, length of service. This severance policy does not provide any different or additional benefits based on or related to the merger.

Acceleration of Vesting or Cancellation of Equity Awards

Messrs. Best and Tulaney have received restricted stock awards under Penseco's equity incentive plan (the 2008 Long-Term Incentive Plan), which awards have not yet vested. Under the terms of the Penseco equity incentive plan, the merger will not constitute a change in control, again, because immediately following the merger current Penseco directors will constitute a majority of the board of directors of the surviving corporation and the shares of Peoples common stock into which the Penseco common stock will be converted will represent at least fifty percent of the common stock of the surviving corporation. Accordingly, the vesting of the restricted stock awards will not be accelerated. In accordance with the terms of the merger agreement, no payment in cancellation of the restricted stock awards will be made and the restricted stock awards will remain outstanding, subject to conversion of the underlying stock. Penseco has no outstanding options or other unvested equity awards.

Pension and Nonqualified Deferred Compensation Benefits

Messrs. Best and Scanlon are participants in Penseco's Executive Deferred Compensation Plan. Under the terms of that plan, account balances become payable within 45 days after a change of control, which is broadly defined to include a change in ownership, change in effective control, or change in the ownership of a substantial portion of the company's assets, as each term is defined under Section 409A of the Internal Revenue Code and related regulations and guidance. Mr. Best has waived his benefit under the plan. Mr. Scanlon is already fully vested in all Penseco balances under the plan. Mr. Scanlon's vested account balance is comprised of Penseco contributions in the amount of \$27,011, plus earnings on those contributions. The merger will constitute a change of control under the Executive Deferred Compensation Plan and Mr. Scanlon will receive payment of his account balance under such plan.

Perquisites, Benefits, Tax Reimbursements and Other Compensation

Except as describe above, none of Penseco's named executive officers will receive any perquisites, benefits, tax reimbursements or other compensation which are based on or otherwise related to the merger.

Table of Contents

Indemnification and Insurance

On or after the effective time of the merger, Peoples will indemnify, defend, and hold harmless all prior and then-existing directors, officers and employees of Peoples, Penseco and their respective subsidiaries against:

- (1) All losses, claims, damages, costs, expenses, liabilities or judgments or amounts that are paid in settlement (with the prior approval of Peoples) of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on, or arising in whole or in part out of, the fact that the person is or was a director, officer, or employee of Peoples, Penseco or their respective subsidiaries, whether pertaining to any matter existing or occurring at or prior to the effective time of the merger and whether asserted or claimed prior to, or at or after, the effective time of the merger; and
- (2) All of the indemnified liabilities identified in paragraph (1) immediately above based in whole or in part on, or arising in whole or in part out of, or pertaining to the merger agreement or the transactions contemplated thereby, to the same extent as an officer, director, or employee may be indemnified by Peoples or its subsidiaries, as the case may be, as of June 28, 2013.

The above indemnification rights include the right to advancement of expenses; however, no officer, director, or employee may be indemnified by Peoples if indemnification is prohibited by applicable law.

After the effective time of the merger, Peoples will maintain a directors' and officers' liability insurance policy providing coverage amounts not less than the coverage amounts provided under the Penseco directors' and officers' liability insurance policy and on terms generally no less favorable. The policy will cover persons who are currently covered by the Penseco insurance policies for a period of six years after the effective time of the merger. However, Peoples is not obligated to make annual premium payments for the six-year period which exceed 200% of the annual premium payment as of December 31, 2012, under Penseco's current policy in effect as of June 28, 2013. If the amount of the premiums necessary to procure insurance coverage exceeds this maximum amount, Peoples will use its reasonable best efforts to maintain the most advantageous policies of directors' and officers' liability insurance obtainable for a premium equal to the maximum amount.

Voting Agreements

As a condition to entering into the merger agreement, each of the directors and certain executive officers of Peoples and Penseco entered into an agreement pursuant to which each such director or executive officer agreed to vote all of his or her shares of Peoples or Penseco common stock, as applicable, in favor of the merger agreement. The forms of voting agreement, which are substantially the same, are attached as Exhibits 1 and 2 to Annex A of this document. The voting agreements may have the effect of discouraging persons from making a proposal for an acquisition transaction involving Penseco or Peoples. The following is a brief summary of the material provisions of the voting agreements:

The directors and executive officers agreed, among other things, to vote, or cause to be voted, (a) for approval and adoption of the merger agreement and the transactions contemplated thereby, and (b) against any action that is intended, or could reasonably be expected to impede, interfere with, delay, postpone, or adversely affect the transaction contemplated in the merger agreement, all shares over which they exercise sole voting power, and to use reasonable efforts to cause all other shares over which they share voting power, including those held in a voting trust jointly with other persons, to be voted in the same manner;

The directors and executive officers agreed not to sell, transfer, or otherwise dispose of their Peoples or Penseco common stock, as applicable, subject to certain exceptions; and

Those directors of Peoples or Penseco who continue as directors of Peoples agreed, for three years after the effective time of the merger, to vote or cause to be voted their shares for the director nominees whom the board of directors of Peoples recommends for election to the board of directors of Peoples.

Table of Contents

Accounting Treatment

The merger will be accounted for as a reverse merger using the acquisition method of accounting, in accordance with the provisions of FASB ASC Topic 805-10 Business Combinations which provides guidance to determine the accounting acquiring entity in this transaction, which included, but were not limited to, the following factors:

The relative voting interests in Peoples after the merger is completed;

The composition of the governing body of Peoples after the merger is completed;

The composition of the senior management of Peoples after the merger is completed;

The terms of the exchange of equity securities in the merger; and

The relative size of the Penseco and Peoples at the time of merger.

Based on consideration of all the relevant facts and circumstances of the merger, including the above factors, for accounting purposes, Penseco is considered to be acquiring Peoples in this transaction. As a result, the historical financial statements of the combined company will be the historical financial statements of Penseco following the completion of the merger. The merger will be effected by the issuance of shares of Peoples stock to Penseco shareholders. The assets and liabilities of Peoples as of the effective date of the merger will be recorded at their respective estimated fair values and added to those of Penseco. Any excess of purchase price over the net estimated fair values of the acquired assets and liabilities of Peoples will be allocated to all identifiable intangible assets. Any remaining excess will then be allocated to goodwill, the goodwill resulting from the merger will not be amortized to expense, but instead will be reviewed for impairment at least annually. To the extent goodwill is impaired, its carrying value would be written down to its implied fair value and a charge would be made to earnings. Customer related intangibles and other intangibles with definite useful lives will be amortized to expense over their estimated useful lives.

In periods following the completion of the merger, the comparative historical financial statements of Peoples will be those of Penseco prior to the merger. These financial statements will reflect the results attributable to the acquired operations of Peoples, as the acquired company for accounting purposes, beginning on the date the merger is completed. The unaudited *pro forma* financial information contained in this document has been prepared using the acquisition method of accounting. See *Unaudited Pro Forma Combined Financial Data* beginning on page F-66 of this document.

Material U.S. Federal Income Tax Consequences

Subject to the limitations, assumptions, and qualifications as discussed herein, in the opinion of each of Bybel Rutledge LLP and Pepper Hamilton LLP, the following discussion addresses the material U.S. federal income tax consequences of the merger to U.S. holders (as defined below) of Penseco common stock. This discussion is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury regulations promulgated under the Code, judicial authorities, published positions of the Internal Revenue Service (the IRS), and other applicable authorities, all as in effect on the date of this document and all of which are subject to change (possibly with retroactive effect) and to differing interpretations which could affect the accuracy of this discussion.

This discussion assumes that U.S. holders of Penseco common stock hold their shares as capital assets within the meaning of Section 1221 of the Code. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to U.S. holders in light of their particular circumstances and does not address aspects of U.S. federal income taxation that may be applicable to U.S. holders subject to special treatment under the federal income tax laws (including banks; financial institutions; tax-exempt organizations; insurance companies; dealers or brokers in securities; traders in securities that elect to use a mark-to-market method of accounting; investors or owners of pass-through entities; mutual funds; holders subject to the alternative minimum tax provisions of the Code; regulated investment companies, real estate investment trusts, controlled foreign corporations; passive foreign investment companies; persons who hold their respective shares

Table of Contents

of Penseco common stock as part of a hedge, straddle, constructive sale, conversion or other integrated securities transaction; expatriates; or persons who acquired their Penseco common stock as compensation or through a tax qualified retirement plan, or who held or acquired their Penseco common stock through an employee stock ownership plan or dividend reinvestment plan). In addition, this discussion does not address the tax consequences to holders of Penseco common stock who exercise appraisal and/or dissenter's rights. Further, this discussion does not consider any aspect of state, local, or foreign taxation or any aspects of U.S. federal tax law (such as the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010) other than federal income tax law.

This discussion is not intended to be tax advice to any particular holder of Penseco common stock. Tax matters regarding the merger are complicated, and the tax consequences of the merger to you will depend on your particular situation. Penseco shareholders are urged to consult their tax advisors with respect to the particular U.S. federal, state, local, and foreign tax consequences to them of the merger.

For purposes of this discussion, you are a U.S. holder if you beneficially own Penseco common stock and you are:

a citizen or resident of the United States for federal income tax purposes;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any of its political subdivisions;

a trust, if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

If an entity classified as a partnership for U.S. federal income tax purposes holds Penseco common stock, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships holding Penseco common stock should consult their own tax advisors.

It is a condition to the closing of the merger that Peoples receive the opinion of its special counsel, Bybel Rutledge LLP, and that Penseco receive the opinion of its counsel, Pepper Hamilton LLP, substantially to the effect that, on the basis of facts, representations, and assumptions set forth or referred to in that opinion (including factual representations contained in certificates of officers of Peoples and Penseco), the merger will be treated as a reorganization within the meaning of Section 368(a) of the Code. The tax opinions are not binding on the IRS or the courts, and neither Peoples nor Penseco intends to request a ruling from the IRS with respect to the U.S. federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of those set forth below.

The discussion below addresses the material U.S. federal income tax consequences to a U.S. holder of Penseco common stock resulting from the qualification of the merger as a reorganization within the meaning of Section 368(a) of the Code.

Exchange of Penseco common stock for Peoples common stock

A U.S. holder that exchanges shares of Penseco common stock for shares of Peoples common stock in the merger generally will not recognize any gain or loss except in respect of cash received in lieu of any fractional share of Peoples common stock (as discussed below). The aggregate adjusted tax basis of the shares of Peoples common stock received by the U.S. holder in the merger will be equal to the aggregate adjusted tax basis of the shares of Penseco common stock surrendered in exchange therefor, reduced by the tax basis allocable to any fractional share of Peoples common stock for which cash is received. The holding period of the Peoples common stock received by a U.S. holder will include the holding period of the shares of Penseco common stock

Table of Contents

surrendered in exchange therefor. If a U.S. holder acquired different blocks of Penseco common stock at different times or at different prices, the holder should consult his or her tax advisor with regard to identifying the bases or holding periods of the particular shares of Peoples common stock received in the exchange.

Cash received in lieu of a fractional share

Cash received by a U.S. holder in lieu of a fractional share of Peoples common stock generally will be treated as received in redemption of the fractional share, and gain or loss generally will be recognized based on the difference between the amount of cash received in lieu of the fractional share and the portion of the holder's aggregate adjusted tax basis of the shares of Penseco common stock surrendered that is allocable to the fractional share. The gain or loss generally will be long-term capital gain or loss if the holding period for the fractional share (including the holding period of the shares of Penseco common stock surrendered therefor) is more than one year. Long-term capital gains of individuals generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Information Reporting and Backup Withholding

If a U.S. holder receives cash in the merger (including cash received in lieu of a fractional share), the holder may be subject to information reporting and backup withholding at a rate of 28%. You generally will not be subject to backup withholding if you (1) provide an accurate taxpayer identification number, certify that you are not subject to backup withholding and otherwise comply with the backup withholding rules; or (2) provide proof that you are exempt from backup withholding. Amounts withheld under the backup withholding rules will be allowed as a refund or credit against a U.S. holder's federal income tax liability provided that the holder furnishes the required information to the IRS.

The foregoing discussion is not intended to be a complete analysis or description of all potential U.S. federal income tax consequences of the merger and is not intended to be, and should not be construed as, tax advice. Penseco shareholders are strongly urged to consult with their tax advisors to determine the particular U.S. federal, state, local, and foreign tax consequences to them of the merger.

Resales of Peoples Common Stock

The shares of Peoples stock to be issued to shareholders of Penseco under the merger agreement have been registered under the Securities Act of 1933 and may be freely traded without restriction by holders who will not be affiliates of Peoples after the merger.

Certain directors and executive officers of Penseco will be considered affiliates of Peoples after the merger. They may resell shares of Peoples common stock received in the merger only if the shares are registered for resale under the Securities Act or an exemption is available. They may resell under the safe harbor provisions of Rule 145 under the Securities Act or as otherwise permitted under the Securities Act. Each person deemed to be an affiliate will enter into an agreement with Peoples providing that the person will not transfer any shares of Peoples stock received in the merger, except in compliance with the Securities Act. Peoples encourages any such person to obtain advice of securities counsel before reselling any Peoples stock.

Application to be Listed on The Nasdaq Stock Market, Inc. or the New York Stock Exchange

Peoples plans to apply to list Peoples common stock on The Nasdaq Stock Market, Inc. or the New York Stock Exchange. We hope that this will make the stock more liquid. However, we cannot guarantee that our application will be accepted. Accordingly, although, the Peoples common stock offered in the merger will be freely transferable once you receive your Peoples stock certificate, Peoples' common stock may not be listed on a national securities exchange. Instead, Peoples common stock may be traded in local over-the-counter markets and privately negotiated transactions. Moreover, even if Peoples' common stock is listed on a securities

Table of Contents

exchange, there is no assurance that an active public trading market for Peoples common stock will develop. The development and maintenance of a public market, having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control. The number of active buyers and sellers of Peoples common stock at any particular time may be limited which may have an adverse effect on the price at which shares of our common stock can be sold. Further, we cannot assure you that significant trading in Peoples common stock will take place for several years, if ever. Investors should consider their shares of Peoples common stock as a long-term investment because, among other things, they may not be able to promptly liquidate their investment at a reasonable price in the event of a personal financial emergency or otherwise.

Rights of Dissenting Shareholders

Pursuant to the Pennsylvania Business Corporation Law, shareholders of Peoples and Penseco have the right to dissent from the merger and to obtain payment of the fair value of their Peoples or Penseco common stock, as the case may be, if the merger is consummated. The term fair value means the value of Peoples or Penseco common stock immediately before completion of the merger, taking into account all relevant factors, but excluding any appreciation or depreciation in anticipation of the merger.

The following summary of the steps necessary to exercise the right to dissent is qualified in its entirety by the full text of Section 1930 and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law, which are attached as Annex D to this joint proxy statement/prospectus. Each step must be taken in the indicated order and in strict compliance with the applicable provisions of the statute in order to perfect dissenters rights. The failure of any shareholder to comply with these steps will result in the shareholder receiving the consideration contemplated by the merger agreement. See Proposal The Merger Terms of the Merger . Any shareholder of Peoples or Penseco who contemplates exercising the right to dissent is urged to read carefully the provisions of Section 1930 and Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law.

Any written notice or demand which is required in connection with the exercise of dissenters rights, whether before or after the effective time of the merger, must be sent to the following locations:

In the case of a Peoples shareholder:

Peoples Financial Services Corp.
82 Franklin Avenue
Hallstead, PA 18822
Attn: Corporate Secretary
Shareholders who wish to dissent must:

In the case of a Penseco shareholder:

Penseco Financial Services Corporation
150 North Washington Avenue
Scranton, PA 18503
Attn: Investor Relations Officer

1. File with Peoples or Penseco, as the case may be, a written notice of intention to demand that they be paid the fair value for their shares of Peoples or Penseco common stock prior to the vote of shareholders on the merger at the Peoples special meeting to be held on November 15, 2013 or Penseco special meeting to be held on November 21, 2013.
2. If the merger is effected, the dissenters must effect no change in the beneficial ownership of their Peoples or Penseco common stock from the date of the filing of the intention to demand payment through the effective time of the merger.
3. And the dissenters must vote against the merger, abstain from voting for the merger, or not vote their Peoples or Penseco common stock to approve the merger.

Neither submitting a proxy against nor a vote in person against adoption and approval of the merger agreement will constitute the necessary written notice of intention to dissent described above. Beneficial owners of Peoples or Penseco common stock whose shares are held of record in street name by a brokerage firm or other nominee must obtain the written consent of the record holder to the beneficial owners exercise of

Table of Contents

dissenters' rights and must submit the consent to Peoples or Penseco, as the case may be, no later than the time of the filing of their notice of intention to dissent.

If the merger is adopted and approved by the required vote of Peoples' and Penseco's shareholders at their respective special meetings, Peoples and Penseco will mail a notice to all dissenters who gave due notice of intention to demand payment and who refrained from voting in favor of the merger. The notice will state where and when a demand for payment must be sent and where certificates for Peoples and Penseco common stock must be deposited in order to obtain payment. It also will include a form for demanding payment and a copy of Subchapter D of Chapter 15 of the Pennsylvania Business Corporation Law. The time set for receipt of the demand for payment and deposit of stock certificates will not be less than 30 days from the date of mailing of the notice.

Shareholders who fail to timely demand payment or fail to timely deposit stock certificates, as required by Peoples' or Penseco's notice, will not have any right to receive payment of the fair value of their Peoples or Penseco common stock.

Promptly after the merger is complete, or upon timely receipt of demand for payment if the merger already has been completed, Peoples will either remit to dissenters who have made demand and have deposited their stock certificates the amount that Peoples, as successor to Penseco, estimates to be the fair value of the Peoples and Penseco common stock or give written notice that no such remittance is being made. The remittance or notice will be accompanied by:

1. A closing balance sheet and an income statement of Peoples or Penseco, as the case may be, for a fiscal year ending not more than 16 months before the date of remittance, together with the latest available interim financial statements;
2. A statement of Peoples' estimate of the fair value of the Peoples or Penseco common stock, as the case may be; and
3. Notice of the right of the dissenter to demand payment or supplemental payment under Pennsylvania Business Corporation Law accompanied by a copy of Subchapter D of Chapter 15 of Pennsylvania Business Corporation Law.

If Peoples does not remit the estimated fair value for shares with respect to which demand for payment has been made and stock certificates have been deposited, then Peoples will return any certificates that have been deposited. Peoples will mark returned certificates and any certificates subsequently issued in exchange therefor to record the fact that demand for payment has been made. Transferees of shares so marked will not acquire any rights in Peoples or Penseco other than those rights held by the original dissenter after such dissenter demanded payment of fair value.

If a dissenter believes that the amount stated or remitted by Peoples is less than the fair value of the Peoples or Penseco common stock, the dissenter may send Peoples his or her own estimate of the fair value of the Peoples or Penseco common stock, as the case may be, which will constitute a demand for payment of the amount of the deficiency. If Peoples remits payment of its estimated value of a dissenter's Peoples or Penseco common stock, as the case may be, and the dissenter does not file his own estimate within 30 days after the mailing by Peoples of its remittance, the dissenter will be entitled to no more than the amount remitted to him or her by Peoples.

Within 60 days after the latest to occur of (1) the completion of the merger, (2) the timely receipt by Peoples or Penseco, as the case may be, of any demands for payment, or (3) timely receipt by Peoples or Penseco, as the case may be, of any estimates by dissenters of fair value, if any demands for payment remain unsettled, Peoples or Penseco, may file, in the case of Peoples, in the Court of Common Pleas of Susquehanna County or, in the case of Penseco, in the Court of Common Pleas of Lackawanna County, an application requesting that the fair value of the Peoples or Penseco common stock be determined by the Court. In such case, all dissenters, wherever

Table of Contents

residing, whose demands have not been settled must be made parties to the proceeding as in an action against their shares, and a copy of the application must be served on each dissenter.

If Peoples or Penseco were to fail to file an application, then any dissenter, on behalf of all dissenters who have made a demand and who have not settled their claim against Peoples or Penseco, may file an application in the name of Peoples or Penseco at any time within the 30-day period after the expiration of the 60-day period and request that the fair value be determined by the Court. The fair value determined by the Court may, but need not, equal the dissenters' estimates of fair value. If no dissenter files such an application, then each dissenter entitled to do so shall be paid Peoples' or Penseco's estimate of the fair value of the Peoples or Penseco common stock, as the case may be, and no more, and may bring an action to recover any amount not previously remitted, plus interest at a rate the Court finds fair and equitable.

Peoples and Penseco intend to negotiate in good faith with any dissenting shareholder. If after negotiation, a claim cannot be settled, then Penseco and/or Peoples, as successor, intends to file an application requesting that the fair value of the Peoples or Penseco common stock be determined by the Court. The fair value that would be determined by the Court cannot be predicted and could be more or less than the value of the merger consideration.

Description of Peoples

General

Peoples, a bank holding company incorporated in 1986 under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Neighborhood Bank, including its subsidiaries, Peoples Advisors, LLC, Peoples Financial Leasing, LLC and Peoples Neighborhood Abstract, LLC. The Company services its retail and commercial customers through twelve full-service community banking offices located within the Lackawanna, Susquehanna and Wyoming counties of Northern Pennsylvania and Broome county of Southern New York.

Peoples Neighborhood Bank is a state non-member bank under the jurisdiction of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. Peoples Neighborhood Bank's primary product is loans to small- and medium-sized businesses. Other lending products include one-to-four family residential mortgages and consumer loans. Peoples Neighborhood Bank primarily funds its loans by offering open time deposits to commercial enterprises and individuals. Other deposit product offerings include certificates of deposits and various demand deposit accounts.

Peoples Advisors, LLC, a member managed limited liability company, provides investment advisory services to individuals and small businesses. Peoples Financial Leasing, LLC, provides employee leasing services to Peoples Neighborhood Bank.

Peoples Neighborhood Abstract, LLC, a limited liability company, offers title insurance and abstract services to residential and commercial mortgage loan customers.

Peoples Advisors, LLC; Peoples Financial Leasing, LLC and Peoples Neighborhood Abstract, LLC did not meet the quantitative thresholds for required segment disclosure in conformity with accounting principles generally accepted in the United States of America (GAAP). Peoples Neighborhood Bank's twelve community banking offices, all similar with respect to economic characteristics, share a majority of the following aggregation criteria: (i) products and services; (ii) operating processes; (iii) customer bases; (iv) delivery systems; and (v) regulatory oversight. Accordingly, they were aggregated into a single operating segment.

As of June 30, 2013, Peoples had 152 full-time equivalent employees. Peoples and Peoples Neighborhood Bank are not parties to any collective bargaining agreement and employee relations are considered to be good.

Table of Contents

Description of Business

Market Areas

Peoples Neighborhood Bank's principal market area consists of Susquehanna, Wyoming and Lackawanna Counties of northeastern Pennsylvania and Broome County in the southern tier of New York. In addition, parts of Wayne and Bradford Counties in Pennsylvania that border Susquehanna and Wyoming Counties are also considered part of the market area.

Specifically, Peoples Neighborhood Bank's market area is situated between:

the city of Binghamton, Broome County, New York, located to the north;

the city of Scranton, Lackawanna County, Pennsylvania, to the south; and

Wilkes-Barre, Luzerne County, Pennsylvania, to the southwest.

Susquehanna County could best be described as a bedroom county with a high percentage of its residents commuting to work in Broome County, New York, or Lackawanna County, Pennsylvania. The southern part of Susquehanna County tends to gravitate south for both employment and shopping, while the northern part of the county goes north to Broome County, New York. The western part of Susquehanna County gravitates south and west to and through Wyoming County. The majority of Peoples Neighborhood Bank's offices are located in counties that would be considered sparsely populated, as they are made up of many small towns and villages.

Most recently, the production of natural gas from the Marcellus Shale formation located in the heart of Peoples Neighborhood Bank's market area has begun to provide economic benefits to the communities served and as a result to Peoples Neighborhood Bank itself. Natural gas producers have already invested billions of dollars in Pennsylvania in lease and land acquisition, new well drilling, infrastructure development and community partnerships, with an even greater investment expected in the future. The growth of Peoples Neighborhood Bank's deposits, and to a lesser extent, loan portfolio, has been influenced by natural gas drilling activities.

Products and Services

Lending Activities

Peoples Neighborhood Bank provides a full range of retail and commercial lending products designed to meet the borrowing needs of consumers and small and medium sized businesses in its market areas. A significant amount of Peoples Neighborhood Bank's loans are to customers located within the defined market area. Peoples Neighborhood Bank has no foreign loans or highly leveraged transaction loans, as defined by the Federal Reserve Board. Although Peoples Neighborhood Bank participates in loans originated by other banks, the majority of loans in the portfolio have been originated by itself.

Retail lending products include the following types of loans, among others: (i) residential real estate; (ii) automobiles; (iii) manufactured housing; (iv) personal; (v) student; (vi) home equity and (vii) credit card. Commercial lending products include the following types of loans, among others: (i) commercial real estate; (ii) working capital; (iii) equipment and other commercial needs; (iv) construction; (v) Small Business Administration and (vi) agricultural and mineral rights. The terms offered on a loan vary depending primarily on the type of loan and credit-worthiness of the borrower.

Payment risk is a function of the economic climate in which Peoples Neighborhood Bank's lending activities are conducted. Economic downturns in the economy generally or in a particular sector could cause cash flow problems for customers and make loan payments more difficult. Peoples Neighborhood Bank attempts to minimize this risk by not being exposed to loan concentrations of a single customer or a group of customers, the loss of any one or more of whom would have a materially adverse effect on its financial condition. Interest rate

Table of Contents

risk (IRR) would occur if Peoples Neighborhood Bank were to make loans at fixed rates in an environment in which rates were subject to rise thereby preventing it from making loans at higher prevailing rates. Peoples Neighborhood Bank attempts to mitigate this risk by making adjustable rate commercial loans and by limiting repricing terms to five years or less for customers requiring fixed rate loans. Finally, collateral risk can occur if Peoples Neighborhood Bank's position in collateral taken as security for loan repayment is not adequate. Peoples Neighborhood Bank minimizes collateral risk by avoiding loan concentrations to particular borrowers, by perfecting liens on collateral and by obtaining appraisals on property prior to extending loans. Peoples Neighborhood Bank attempts to mitigate its exposure to these and other types of risks by stratifying authorization requirements by loan size and complexity.

Deposit Activities

Peoples Neighborhood Bank's primary source of funds is the cash flow provided by its financing activities, mainly deposit gathering. Other sources of funds are provided by investing activities, including principal and interest payments on loans and investment securities, and operating activities, primarily net income. Peoples Neighborhood Bank offers a variety of deposit accounts with a range of interest rates and terms, including, among others: (i) money market accounts; (ii) NOW accounts; (iii) savings accounts; (iv) certificates of deposit; (v) individual retirement accounts and (vi) demand deposit accounts. These deposits are primarily obtained from areas surrounding Peoples Neighborhood Bank's branch offices. Peoples Neighborhood Bank relies primarily on marketing, product innovation, technology, service and long-standing relationships with customers to attract and retain these deposits. Other deposit related services include: (i) remote deposit capture; (ii) automatic clearing house transactions; (iii) cash management services; (iv) automated teller machines; (v) point of sale transactions; (vi) safe deposit boxes; (vii) night depository services; (viii) direct deposit and (ix) official check services.

Wealth Management Services

Peoples Wealth Management, a division of Peoples Advisors, LLC, provides a comprehensive array of wealth management products and services to individuals, small businesses and nonprofit entities. These products and services include the following, among others: (i) investment portfolio management; (ii) estate planning; (iii) annuities; (iv) business succession planning; (v) insurances; (vi) education funding strategies and (vii) tax planning.

Competition

Peoples Neighborhood Bank competes primarily with commercial banks, thrift institutions and credit unions, many of which are substantially larger in terms of assets and available resources. Certain of these institutions have significantly higher lending limits than Peoples Neighborhood Bank and may provide various services for their customers that are not presently available at Peoples Neighborhood Bank. In addition, Peoples Neighborhood Bank experiences competition for deposits from mutual funds and security brokers, while consumer discount, mortgage and insurance companies compete for various types of loans. Credit unions, finance companies and mortgage companies enjoy certain competitive advantages over Peoples Neighborhood Bank as they are not subject to the same regulatory restrictions and taxations as commercial banks. Principal methods of competing for bank products, permitted nonbanking services and financial activities include price, nature of product, quality of service and convenience of location.

Peoples Neighborhood Bank's most significant competitive advantage originates from its business philosophy which includes offering direct access to senior management and other officers and providing friendly, informed and courteous service, local and timely decision making, flexible and reasonable operating procedures and consistently applied credit policies. In addition, Peoples Neighborhood Bank's success has been, and will continue to be, a result of its emphasis on community involvement and customer relationships. With consolidation continuing in the financial industry, and particularly in Peoples Neighborhood Bank's market area,

Table of Contents

smaller community banks such as Peoples Neighborhood Bank are gaining opportunities and market share as larger institutions reduce their emphasis on or exit the markets.

Seasonality

Generally, the operations of Peoples Neighborhood Bank are not seasonal in nature. However, Peoples Neighborhood Bank's business activities have been somewhat influenced by the recent increase in activities related to natural gas drilling in its market area.

Supervision and Regulation

Peoples and its subsidiaries are extensively regulated under federal and state laws. Generally, these laws and regulations are intended to protect consumers, not shareholders. The following is a summary description of certain provisions of law that affect the regulation of bank holding companies and banks. This discussion is qualified in its entirety by reference to applicable laws and regulations. Changes in law and regulation may have a material effect on the business and prospects of Peoples.

Peoples is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board (FRB). Peoples is required to file annual and quarterly reports with the FRB and to provide the FRB with such additional information as the FRB may require. The FRB also conducts examinations of Peoples.

With certain limited exceptions, Peoples is required to obtain prior approval from the FRB before acquiring direct or indirect ownership or control of more than 5% of any voting securities or substantially all of the assets of a bank or bank holding company, or before merging or consolidating with another bank holding company. Additionally, with certain exceptions, any person or entity proposing to acquire control through direct or indirect ownership of 25% or more of any voting securities of Peoples is required to give 60 days' written notice of the acquisition to the FRB, which may prohibit the transaction, and to publish notice to the public.

Peoples' banking subsidiary is regulated by the Pennsylvania Department of Banking and Securities (the Department of Banking) and the FDIC. The Department of Banking may prohibit an institution over which it has supervisory authority from engaging in activities or investments that the agency believes constitute unsafe or unsound banking practices. Federal banking regulators have extensive enforcement authority over the institutions they regulate to prohibit or correct activities that violate law, regulation or a regulatory agreement or which are deemed to constitute unsafe or unsound practices.

Enforcement actions may include:

the appointment of a conservator or receiver;

the issuance of a cease and desist order;

the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution affiliated parties;

the issuance of directives to increase capital;

the issuance of formal and informal agreements;

the removal of or restrictions on directors, officers, employees and institution-affiliated parties; and

the enforcement of any such mechanisms through restraining orders or any other court actions.

Peoples Neighborhood Bank is subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders or any related interests of such persons which generally require that such credit

Table of Contents

extensions be made on substantially the same terms as are available to third persons dealing with Peoples Neighborhood Bank and not involving more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to capital levels of Peoples Neighborhood Bank.

Limitations on Dividends and Other Payments

Peoples' current ability to pay dividends is largely dependent upon the receipt of dividends from Peoples Neighborhood Bank. Both federal and state laws impose restrictions on the ability of Peoples and Peoples Neighborhood Bank to pay dividends. Under such restrictions, Peoples Neighborhood Bank may not, without prior approval, declare dividends in excess of the sum of its net profit for that year combined with its retained net profits of the preceding two calendar years. In addition to these specific restrictions, bank regulatory agencies, in general, also have the ability to prohibit proposed dividends by a financial institution that would otherwise be permitted under applicable regulations if the regulatory body determines that such distribution would constitute an unsafe or unsound practice.

Permitted Non-Banking Activities

Generally, a bank holding company may not engage in any activities other than banking, managing, or controlling its bank and other authorized subsidiaries, and providing service to those subsidiaries. With prior approval of the FRB, Peoples may acquire more than 5% of the assets or outstanding shares of a company engaging in non-bank activities determined by the FRB to be closely related to the business of banking or of managing or controlling banks. The FRB provides expedited procedures for expansion into approved categories of non-bank activities.

Subsidiary banks of a bank holding company are subject to certain quantitative and qualitative restrictions: (i) on extensions of credit to the bank holding company or its subsidiaries; and (ii) on the use of their securities as collateral for loans to any borrower. These regulations and restrictions may limit Peoples' ability to obtain funds from Peoples Neighborhood Bank for its cash needs, including funds for the payment of dividends, interest and operating expenses. Further, subject to certain exceptions, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.

Under FRB policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks and to make capital injections into a troubled subsidiary bank, and the FRB may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank when required. A required capital injection may be called for at a time when the holding company does not have the resources to provide it. In addition, depository institutions insured by the FDIC can be held liable for any losses incurred by, or reasonably anticipated to be incurred by, the FDIC in connection with the default of or assistance provided to, a commonly controlled FDIC-insured depository institution. Accordingly, in the event that any insured subsidiary of a bank holding company causes a loss to the FDIC, other insured subsidiaries of a bank holding company could be required to compensate the FDIC by reimbursing it for the estimated amount of such loss. Such cross guarantee liabilities generally are superior in priority to the obligation of the depository institutions to its shareholders due solely to their status as shareholders and obligations to other affiliates.

Pennsylvania Law

As a Pennsylvania bank holding company, Peoples is subject to various restrictions on its activities as set forth in Pennsylvania law. This is in addition to those restrictions set forth in federal law. Under Pennsylvania law, a bank holding company that desires to acquire a bank or bank holding company that has its principal place of business in Pennsylvania must obtain permission from the Department of Banking.

Table of Contents

Interstate Banking Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 provides that, among other things, substantially all state law barriers to the acquisition of banks by out-of-state bank holding companies were eliminated. The law also permits interstate branching by banks, subject to the ability of states to opt-out completely or to set an earlier effective time.

Financial Institution Reform, Recovery, and Enforcement Act (FIRREA)

FIRREA was enacted into law in order to address the financial condition of the Federal Savings and Loan Insurance Corporation, to restructure the regulation of the thrift industry, and to enhance the supervisory and enforcement powers of the federal bank and thrift regulatory agencies. As the primary federal regulator of Peoples Neighborhood Bank, the FDIC, in conjunction with the Department of Banking is responsible for its supervision. When dealing with capital requirements, those regulatory bodies have the flexibility to impose supervisory agreements on institutions that fail to comply with regulatory requirements. The imposition of a capital plan, termination of deposit insurance, and removal or temporary suspension of an officer, director or other institution-affiliated person may cause enforcement actions.

There are three levels of civil penalties under FIRREA.

The first tier provides for civil penalties of up to \$5,000 per day for any violation of law or regulation.

The second tier provides for civil penalties of up to \$25,000 per day if more than a minimal loss or a pattern is involved.

Finally, civil penalties of up to \$1 million per day may be assessed for knowingly or recklessly causing a substantial loss to an institution or taking action that results in a substantial pecuniary gain or other benefit.

Criminal penalties are increased to \$1 million per violation and may be up to \$5 million for continuing violations or for the actual amount of gain or loss. These penalties may be combined with prison sentences of up to five years.

Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA)

FDICIA provides for, among other things:

publicly available annual financial condition and management reports for financial institutions, including audits by independent accountants;

the establishment of uniform accounting standards by federal banking agencies;

the establishment of a prompt corrective action system of regulatory supervision and intervention, based on capitalization levels, with more scrutiny and restrictions placed on depository institutions with lower levels of capital;

additional grounds for the appointment of a conservator or receiver; and

restrictions or prohibitions on accepting brokered deposits, except for institutions which significantly exceed minimum capital requirements.

Edgar Filing: PEOPLES FINANCIAL SERVICES CORP. - Form 424B3

A central feature of FDICIA is the requirement that the federal banking agencies take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Pursuant to FDICIA, the federal bank regulatory authorities have adopted regulations setting forth a five-tiered system for measuring the capital adequacy of the depository institutions that they supervise. Under these regulations, a depository institution is classified in one of the following capital categories:

well capitalized ;

adequately capitalized ;

Table of Contents

under capitalized ;

significantly undercapitalized ; and

critically undercapitalized .

Peoples Neighborhood Bank was categorized as well capitalized under the regulatory framework for prompt corrective action at December 31, 2012, based on the most recent notification from the FDIC. An institution may be deemed by the regulators to be in a capitalization category that is lower than is indicated by its actual capital position if, among other things, it receives an unsatisfactory examination rating with respect to asset quality, management, earnings or liquidity.

FDICIA generally prohibits a depository institution from making any capital distribution including payment of a cash dividend or paying any management fees to its holding company, if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. If a depository fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized . Significantly undercapitalized depository institutions may be subject to a number of other requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and stop accepting deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator; generally within 90 days of the date such institution is determined to be critically undercapitalized.

FDICIA provides the federal banking agencies with significantly expanded powers to take enforcement action against institutions that fail to comply with capital or other standards. Such actions may include the termination of deposit insurance by the FDIC or the appointment of a receiver or conservator for the institution. FDICIA also limits the circumstances under which the FDIC is permitted to provide financial assistance to an insured institution before appointment of a conservator or receiver.

Under FDICIA, each federal banking agency is required to prescribe, by regulation, non-capital safety and soundness standards for institutions under its authority. The federal banking agencies, including the FDIC, have adopted standards covering:

internal controls;

information systems and internal audit systems;

loan documentation;

credit underwriting;

interest rate exposure;

asset growth; and

compensation fees and benefits.

Any institution that fails to meet these standards may be required to develop an acceptable plan, specifying the steps that the institutions will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. Peoples believes that it meets substantially all the standards that have been adopted. FDICIA also imposed new capital standards on insured depository institutions. Before establishing new branch offices, Peoples Neighborhood Bank must meet certain minimum capital stock and surplus requirements and must obtain State approval.

Risk-Based Capital Requirements

The federal banking regulators have adopted certain risk-based capital guidelines to assist in the assessing capital adequacy of a banking organization's operations for both transactions reported on the balance sheet as

Table of Contents

assets and transactions, such as letters of credit, and recourse agreements, which are recorded as off-balance sheet items. Under these guidelines, nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain US Treasury securities, to 100% for assets with relatively high credit risk, such as business loans.

A banking organization's risk-based capital ratios are obtained by dividing its qualifying capital by its total risk adjusted assets. The regulators measure risk-adjusted assets, which include off-balance-sheet items, against both total qualifying capital, the sum of Tier 1 capital and limited amounts of Tier 2 capital, and Tier 1 capital.

Tier 1, or core capital, includes common equity, perpetual preferred stock and minority interest in equity accounts of consolidated subsidiaries, less goodwill and other intangibles, subject to certain exceptions.

Tier 2, or supplementary capital, includes, among other things, limited life preferred stock, hybrid capital instruments, mandatory convertible securities, qualifying subordinated debt, and the allowance for loan and lease losses, subject to certain limitations and less restricted deductions. The inclusion of elements of Tier 2 capital is subject to certain other requirements and limitations of the federal banking agencies.

Banks and bank holding companies subject to the risk-based capital guidelines are required to maintain a ratio of Tier 1 capital to risk-weighted assets of at least 4% and a ratio of total capital to risk-weighted assets of at least 8%. The appropriate regulatory authority may set higher capital requirements when particular circumstances warrant. At December 31, 2012, Peoples met both requirements with Tier 1 and Total capital ratios of 12.11% and 13.36%. In addition to risk-based capital, banks and bank holding companies are required to maintain a minimum amount of Tier 1 capital to total assets, referred to as the leverage capital ratio, of at least 4.00%. At December 31, 2012, Peoples' leverage ratio was 9.17%.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement actions including:

limitations on its ability to pay dividends;

the issuance by the applicable regulatory authority of a capital directive to increase capital, and in the case of depository institutions, the termination of deposit insurance by the FDIC, as well as to the measures described under FDICIA as applicable to undercapitalized institutions.

In addition, future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect the ability of Peoples Neighborhood Bank to grow and could restrict the amount of profits, if any, available for the payment of dividends to Peoples.

Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations begins January 1, 2015, while larger institutions (generally those with assets of \$250 billion or more) must begin compliance on January 1, 2014. The final rules call for the following capital requirements:

A minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%.

A minimum ratio of tier 1 capital to risk-weighted assets of 6%.

A minimum ratio of total capital to risk-weighted assets of 8% (no change from the current rule).

A minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the

Table of Contents

minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations will begin on January 1, 2016.

Under the proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity tier 1 capital. The final rules allow community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election must be made in the first call report or FR Y-9 series report that is filed after the financial institution becomes subject to the final rule.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the tier 1 capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009 and banking organizations that were mutual holding companies as of May 19, 2010.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight.

Under the new rules, mortgage servicing assets (MSAs) and certain deferred tax assets (DTAs) are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

Peoples is in the process of assessing the impact of these changes on the regulatory ratios of Peoples and Peoples Neighborhood Bank on the capital, operations, liquidity and earnings of Peoples and Peoples Neighborhood Bank.

Interest Rate Risk

Regulatory agencies include, in their evaluations of a bank's capital adequacy, an assessment of the bank's Interest Rate Risk (IRR) exposure. The standards for measuring the adequacy and effectiveness of a banking organization's IRR management includes a measurement of board of directors and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate to the circumstances of the specific banking organization. Peoples Neighborhood Bank utilizes internal IRR models to measure and monitor IRR. In addition, Peoples Neighborhood Bank employs an independent consultant to provide a quarterly assessment of its IRR. Finally, regulatory agencies, as part of the scope of their periodic examinations, evaluate Peoples Neighborhood Bank's IRR management. For these reasons, Peoples does not expect the IRR evaluation in the agencies' capital guidelines to result in significant changes in its capital requirements.

Community Reinvestment Act

The Community Reinvestment Act of 1977, (CRA) is designed to create a system for bank regulatory agencies to evaluate a depository institution's record in meeting the credit needs of its community. The CRA

Table of Contents

regulations were completely revised as of July 1, 1995, to establish performance-based standards for use in examining for compliance. Peoples Neighborhood Bank had its last CRA compliance examination in 2012 and received a satisfactory rating.

USA Patriot Act of 2001

The Patriot Act contains anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Regulation W

Certain transactions, including loans and credit extensions, between Peoples and its affiliates and subsidiaries are subject to quantitative and qualitative limitations, collateral requirements, and other restrictions imposed by statute and FRB regulation. Transactions subject to these restrictions are generally required to be made on an arms-length basis. These restrictions generally do not apply to transactions between Peoples and its direct wholly-owned subsidiaries.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. Dodd-Frank is intended to effect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created the Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators authority to take control of and liquidate financial firms. Dodd-Frank additionally created an independent federal regulator to administer federal consumer protection laws. Dodd-Frank has and is expected to continue to have a significant impact on Peoples' business operations as its provisions take effect. It is expected that, as various implementing rules and regulations are released, they will increase Peoples' operating and compliance costs and could increase the Peoples Neighborhood Bank's interest expense. Among the provisions that are likely to affect Peoples' are the following:

Holding Company Capital Requirements

Dodd-Frank requires the FRB to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010, by a bank holding company with less than \$15 billion in assets. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion, consistent with safety and soundness.

Deposit Insurance

Dodd-Frank permanently increases the maximum deposit insurance amount for banks, savings institutions and credit unions to \$250,000 per depositor. Dodd-Frank also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Further, Dodd-Frank eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance

Dodd-Frank requires publicly-traded companies to give stockholders a non-binding vote on executive compensation at least every three years, a non-binding vote regarding the frequency of the vote on executive

Table of Contents

compensation at least every six years, and a non-binding vote on golden parachute payments in connection with approvals of mergers and acquisitions unless previously voted on by stockholders. Additionally, Dodd-Frank directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1.0 billion, regardless of whether the company is publicly traded. Dodd-Frank also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions

Dodd-Frank prohibits a depository institution from converting from a state to a federal charter, or vice versa, while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator, which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating thereto.

Interstate Branching

Dodd-Frank authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks are able to enter new markets more freely.

Limits on Interstate Acquisitions and Mergers

Dodd-Frank precludes a bank holding company from engaging in an interstate acquisition the acquisition of a bank outside its home state unless the bank holding company is both well capitalized and well managed. Furthermore, a bank may not engage in an interstate merger with another bank headquartered in another state unless the surviving institution will be well capitalized and well managed. The previous standard in both cases was adequately capitalized and adequately managed.

Limits on Interchange Fees

Dodd-Frank amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer.

Consumer Financial Protection Bureau

Dodd-Frank created the Consumer Financial Protection Bureau (CFPB), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act, and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB, but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum

Table of Contents

standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a qualified mortgage as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Ability to Repay and Qualified Mortgage Rule

Pursuant to the Dodd Frank Act, the Consumer Financial Protection Bureau issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Alternatively, the mortgage lender can originate qualified mortgages, which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a qualified mortgage is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Loans which meet these criteria will be considered qualified mortgages, and as a result generally protect lenders from fines or litigation in the event of foreclosure. Qualified mortgages that are higher-priced (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not higher-priced (e.g. prime loans) are given a safe harbor of compliance. The final rule, as issued, is not expected to have a material impact on Peoples Neighborhood Bank's lending activities and on Peoples statements of income or condition.

Jumpstart Our Business Startups (JOBS) Act

In April 2012, the JOBS Act became law. The JOBS Act is aimed at facilitating capital raising by smaller companies and banks and bank holding companies by implementing the following changes:

Raising the threshold requiring registration under the Securities Exchange Act of 1934 (Exchange Act) for banks and bank holding companies from 500 to 2,000 holders of record;

Raising the threshold for triggering deregistration under the Exchange Act for banks and bank holding companies from 300 to 1,200 holders of record;

Raising the limit for Regulation A offerings from \$5 million to \$50 million per year and exempting some Regulation A offerings from state blue sky laws;

Permitting advertising and general solicitation in Rule 506 and Rule 144A offerings;

Allowing private companies to use crowd funding to raise up to \$1 million in any 12-month period, subject to certain conditions; and,

Creating a new category of issuer, called an Emerging Growth Company, for companies with less than \$1 billion in annual gross revenue, which will benefit from certain changes that reduce the cost and burden of carrying out an equity initial public offering (IPO) and complying with public company reporting obligations for up to five years.

Table of Contents

Future Legislation

Proposed legislation is introduced in almost every legislative session that would dramatically affect the regulation of the banking industry. We cannot predict if any such legislation will be adopted nor if adopted how it would affect the business of Peoples or Peoples Neighborhood Bank. Past history has demonstrated that new legislation or changes to existing laws or regulations usually results in greater compliance burden and therefore generally increases the cost of doing business.

Property

Peoples corporate headquarters is located at 82 Franklin Avenue, Hallstead, Susquehanna County, Pennsylvania. Peoples owns the facility which has approximately 9,800 square feet.

In addition to the above location, at December 31, 2012, Peoples owned 10 and leased two retail community banking offices. Peoples also owns an office building located at 241 Main Street, Hallstead, Susquehanna County, Pennsylvania, which serves as its Bank Secrecy Act facility and leases an office building located in Scranton, Lackawanna County, Pennsylvania, which serves as a loan production office. Peoples considers its properties to be suitable and adequate for its current and immediate future purposes.

Legal Proceedings

Peoples, Peoples Neighborhood Bank and its subsidiaries are not parties to any legal proceedings that could have a material effect on the financial condition or operating results of the Peoples. In addition, Peoples, Peoples Neighborhood Bank and its subsidiaries are not parties to any legal proceedings under federal and state environmental laws.

Information about Peoples Directors

The following provides information, as of December 31, 2012, about each director. The information presented includes information each director has given us about his age, all positions he holds, and his principal occupation for the past five years. The following also includes certain individual qualifications and skills that contribute to the board's effectiveness as a whole. We believe that all of our directors have a reputation for integrity, honesty and adherence to high ethical standards. They each have demonstrated business insight and an ability to exercise sound judgment, as well as a commitment to service.

William E. Aubrey II, age 50, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2006 and Chairman of the board since 2008. His current term expires in 2016. He has been President and Chief Executive Officer of Gertrude Hawk Chocolates since 2003. The board has determined that Mr. Aubrey is qualified to be on the board due to his executive management experience gained by being President of two companies. He also brings knowledge gained by serving on several community boards and an education background in the finance area - MBA and CPA.

Alan W. Dakey, age 61, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2009. His current term expires in 2015. He has been President/Chief Executive Officer of Peoples and Peoples Neighborhood Bank since 2009. The board has determined that Mr. Dakey is qualified to be on the board due to his 38 years of banking experience including titles as Chief Executive Officer, President, and Chairman of the board. He also holds a MBA in Finance from The University of Scranton and a BS in Accounting from Bloomsburg University.

Ronald G. Kukuchka, age 59, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2007. His current term expires in 2014. He has been President of Ace Robbins, Inc. since 1982. The board has determined that Mr. Kukuchka is qualified to be on the board due to his leaderships

Table of Contents

skills gained from owning a successful petroleum company in our market area for over 25 years. He also brings experience gained by serving as director for the Pennsylvania Marketers & Convenience Store Association, director of the Tunkhannock Fireman's Relief Association, and from being trustee of the Roy Piper Charitable Trust.

Richard S. Lochen, Jr., age 49, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2003. His current term expires in 2014. He has been a Certified Public Accountant with the firm of Lochen & Chase PC since 1995. He was the former President/Chief Executive Officer of Peoples and Peoples Neighborhood Bank and Former Chief Administrative Officer of Peoples and Peoples Neighborhood Bank. The board has determined that Mr. Lochen is qualified to be on the board due to his knowledge of auditing publically-traded financial institutions that he gained during his career as a CPA, which included assisting in preparation of annual and quarterly filings with the SEC. He also brings executive leadership experience and understanding of the operations of Peoples gained from his serving as Chief Executive Officer of Peoples and Peoples Neighborhood Bank for four years.

George H. Stover, Jr., age 66, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 1992. His current term expires in 2014. He has been a Real Estate Appraiser since 1972. The board has determined that Mr. Stover is qualified to be on the board due to his leadership skills obtained from successfully operating his own insurance and real estate business for 40 years. In addition, Mr. Stover has expertise of real estate values due to being an experienced real estate appraiser.

Earle A. Wootton, age 68, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2010. His current term expires in 2015. He is a director of the Community Foundation of Susquehanna and Wyoming Counties and the former President of a group of commercial printing and publishing companies. The board has determined that Mr. Wootton is qualified to be on the board due to his executive management skills acquired through being Chief Executive Officer of a printing company for 30 years. He also brings experience gained through being a previous director of a national bank for 18 years, and being the founder and chairman of a community foundation.

Joseph T. Wright, Jr., age 57, has been a director of Peoples Financial Services Corp. and Peoples Neighborhood Bank since 2009. His current term expires in 2016. He has been an attorney at law with Wright Reihner PC since 1980. The board has determined that Mr. Wright is qualified to be on the board due to his experience and knowledge gained while being a practicing attorney for over thirty years with involvement in numerous financially complex matters related to disputes involving shareholders, employment matters, contracts, valuation issues, real estate matters, and general business issues related to risk assessment.

Director Compensation

Each member of the board of directors receives \$750 for each Peoples Neighborhood Bank board meeting, with the exception of the Chief Executive Officer. All Peoples Neighborhood Bank board members receive \$500 for each committee meeting they attend and \$300 for each branch meeting they attend, with the exception of the Chief Executive Officer. All directors receive a retainer of \$14,000 per year, with the exception of the Chief Executive Officer. The Chairman receives an additional \$800 per month. The Audit Committee Chairman receives an additional \$250 per audit committee meeting.

Directors Supplemental Life Insurance Plan

Effective June 24, 2011, Peoples Neighborhood Bank established a director supplemental life insurance plan. All directors are eligible for the life insurance benefit, subject to medical underwriting acceptance. The plan currently insures seven (7) directors. The director life insurance benefit of \$100,000 per participating director will be provided through a single premium BOLI program because BOLI is a more cost-effective way of providing the benefits. The eligible participating directors are not required to pay any premiums on the life insurance policy, but have the imputed value of the insurance coverage included in their taxable income.

Table of Contents**Directors Deferred Compensation Plan**

On March 26, 2011, Peoples Neighborhood Bank adopted the director Deferred Compensation Plan effective April 15, 2011. All current directors are eligible to participate in the director Deferred Compensation Plan. The plan allows for deferrals by participants of up to 100% of their director's fees and bonuses. There is no maximum dollar limit on the amount that may be deferred by a participant each year. Participants are permitted to change their percentage of deferral annually. The participants are always 100% vested in the amount they defer and the earnings credited to their accounts. Participants are entitled to receive a distribution from their account upon: a termination of service, a change in control, or a specified date as allowed within the plan.

Directors Retirement

Peoples provides a retirement benefit to its non-employee directors. The plan requires a minimum of ten years of service unless a change of control occurs, in which case the directors become fully vested in the benefit. After the tenth year, the director is granted an annual retirement distribution of \$150 times the director's number of years of service on the board. This benefit is payable to the director or beneficiary for a ten-year period following retirement. Peoples has a mandatory retirement age of 70.

Directors Compensation Table

Name	Fees Earned or Paid in Cash	Change in Pension Value and Non-Qualified Deferred Compensation Earnings	All Other Compensation (1)	Total
William E. Aubrey II	\$ 42,600	\$ 0	\$ 213	\$ 42,813
Ronald G. Kukuchka	\$ 29,500	\$ 415	\$ 566	\$ 30,481
Richard S. Lochen, Jr.	\$ 32,500	\$ 131	\$ 213	\$ 32,844
George H. Stover, Jr.	\$ 30,500	\$ 0	\$ 1,190	\$ 31,690
Earle A. Wootton	\$ 31,800	\$ 0	\$ 1,692	\$ 33,492
Joseph T. Wright, Jr.	\$ 32,700	\$ 0	\$ 520	\$ 33,220

(1) Amount reflects the Imputed Income on the directors Split Dollar Insurance Plan for 2012.

Executive Officers

The following table identifies each of the executive officers of Peoples and Peoples Neighborhood Bank, their age as of December 31, 2012, the position they currently hold and their professional experience during the prior five years.

Name	Age	Position and Prior Experience
Alan W. Dakey	61	President and Chief Executive Officer of Peoples and Peoples Neighborhood Bank since 2009. Former President/CEO/director of Mid Penn Bancorp, Inc.
Debra E. Dissinger	58	Secretary of Peoples and Executive Vice President/Chief Operations Officer/Chief Risk Officer of Peoples Neighborhood Bank
Joseph M. Ferretti	43	Executive Vice President/Chief Lending Officer of Peoples Neighborhood Bank; Senior Vice President/Chief Credit Officer of Peoples Neighborhood Bank.
Scott A. Seasock	55	Senior Vice President/Chief Financial Officer of Peoples Neighborhood Bank since 2011. Former Chief Financial Officer of Community Bank and Trust

Table of Contents

Executive Officers of Peoples are elected by the board of directors on an annual basis and serve at the discretion of the board of directors. There are no family relationships among any of the Executive Officers or directors of Peoples.

Executive Compensation

Compensation Discussion and Analysis

Overview of Objectives

The executive compensation program of Peoples is designed to provide a competitive based salary as well as provide incentives to our executive officers to effectively lead and manage our company and its growth strategy. Decisions regarding executive compensation are determined by Peoples compensation committee with the approval of the board of directors.

The program is designed to support annual and long-term company goals that create consistent profitable growth while providing long-term value to our shareholders. The objectives of Peoples executive compensation plan are to: (1) attract, motivate and retain highly qualified executives; (2) link total compensation to both individual performance and the performance of the bank and holding company; (3) appropriately balance short-term and long-term financial objectives, build shareholder value and reward individual, team and company performances, and (4) align executive and shareholder interests by including equity as part of total compensation.

In this compensation discussion and analysis, Peoples Chief Executive Officer, Chief Operating Officer/Chief Risk Officer, Chief Financial Officer, and Chief Lending Officer are referred to collectively as the named executive officers.

During the year ended December 31, 2012, Peoples compensated the named executive officers with a combination of base salary, cash bonus, equity compensation-through the Employee Stock Ownership Plan (ESOP), and benefit plans and perquisites which the compensation committee believed were comparable to other financial institutions of similar size in our region.

Components of the Compensation Program

Peoples executive compensation includes three key elements: base salary, annual cash incentives and benefit plans.

Base Salary

Base salary is the basic element of the executive compensation program and the foundation for setting incentive compensation target awards. The Committee determines the range of base salary to offer to a new executive by evaluating (1) the duties, complexities and responsibilities of the position; (2) the level of experience required, and (3) compensation for positions having similar scope and accountability as Peoples Neighborhood Bank s peers. The Committee uses a peer group of banks with asset sizes of \$500 million to \$1 billion in total assets and located in the Northeast Pennsylvania region and sets initial compensation between 83 and 106 percent of the median salary for comparable positions within the peer group.

Each year, the Peoples compensation committee reviews each named executive officer s individual performance, length and nature of experience and competency, and the potential for advancement in determining the amount of pay adjustments to recommend to the board of directors. The Chief Executive Officer s and Chief Financial Officer s salary increased at the percentage required by their employment agreements.

Table of ContentsAnnual Cash Incentives

In January 2008, the compensation committee recommended to the board of directors an Incentive Compensation Plan (the Peoples Neighborhood Bank's Executive Cash Bonus Plan) which was adopted by Peoples' directors. Incentive Compensation represents the at risk portion of an executive's pay. The compensation committee sets corporate goals for the named executive officers to achieve in order to qualify for a cash bonus. Measurements and weighting for 2012 contained both Economic Profit Targets and Individual Strategic Targets.

Economic Profit Targets based on achieving budgeted goals included: Net Income weighted at 50%, Total Average Assets at 5%, Return on Average Assets at 5%, Return on Average Equity at 5%, and Efficiency Ratio at 5%. The net income factor is determined on a sliding scale allowing for the bonus calculation to be less than 50% for a graduated variance of under budget performance, and to be more than 50% on a graduated scale for being over budget. Peoples believes financial goals create a strong and objective link between executive compensation and shareholder value creation. Peoples uses economic profit as the measurement for financial goal achievement because it promotes the simultaneous optimization of growth, earnings and capital efficiency. Peoples believes economic profit is the best indicator of long-term shareholder value creation and correlates well with long-term stock price appreciation.

The economic targets and results for the year 2012 for each executive were as follows:

Bank wide financial component 70%

	Goal	Results	Component %
Budget	9,125	9,120	50%
Total Average Assets	642	641	5%
ROAA	1.42	1.42	5%
ROAE	15.08	14.92	5%
Efficiency Ratio	<60	53	5%
Total Bank Wide %			70%

The non-economic component for the cash bonus, which was weighted at 30%, was based on Individual Strategic Goals. Strategic plans were outlined for each officer and attainment of the target was based on the execution of the related department's strategic goals. The board sets separate goals to align executives' interests with the financial performance of either Peoples or their individual area of responsibility. The non-economic goals for each respective executive were as follows:

Mr. Alan Dakey**Individual strategic goals component- 30%**

	Component %	% Achieved	% Factor
1. Accomplish strategic objectives as identified in the tracking report	7.5%		